OCTOBER 1961

The Mortgage Banker

THEY TALKED . . . and explained how a pension fund can buy mortgages as easily as any other investment . . .

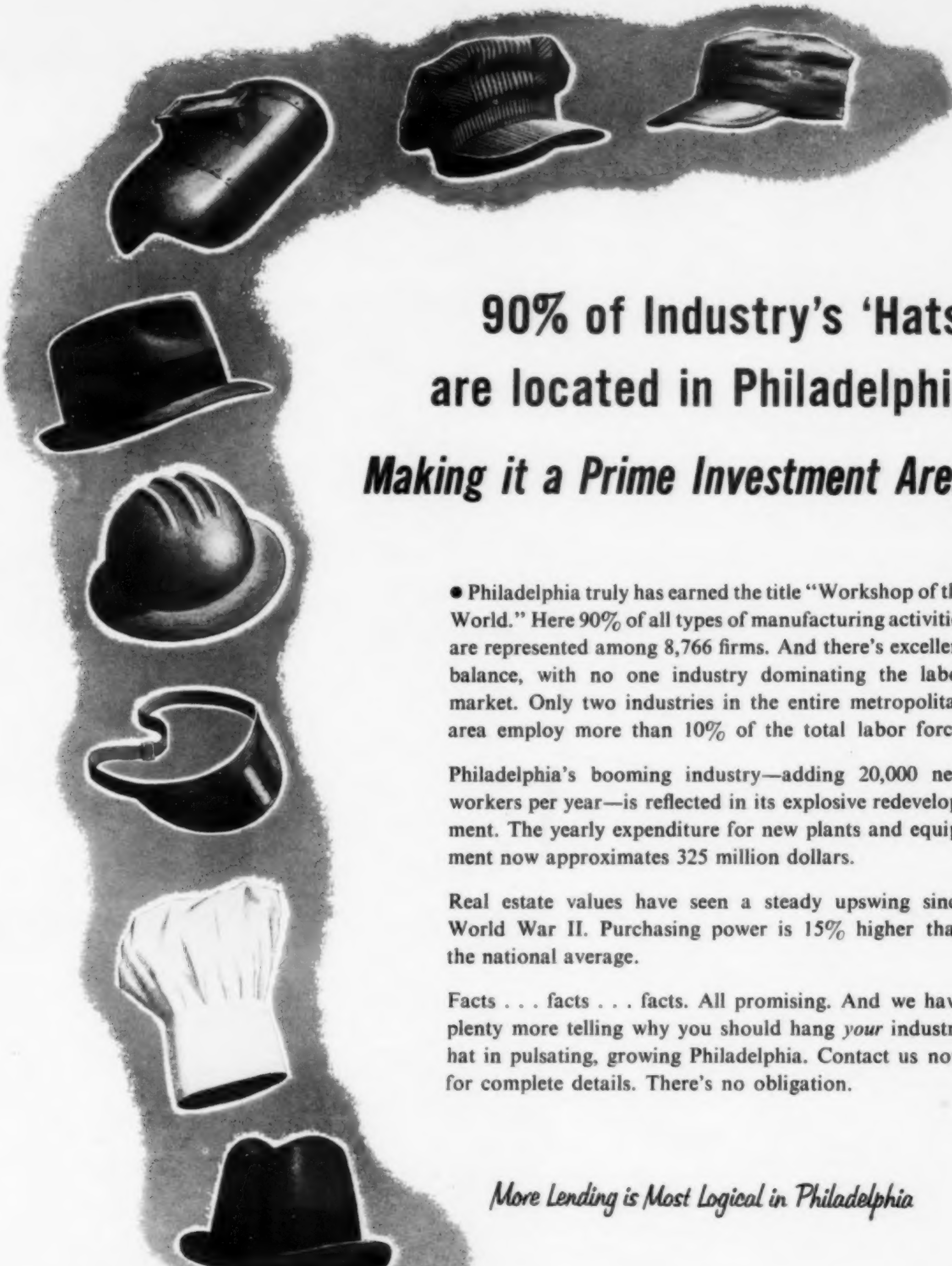
THEY LISTENED . . . nearly 100 pension trust administrators heard The Mortgage Loan story tell how . . .

. . . all this at MBA's Mortgage Seminar for Trusteed Funds. See page 54

MORTGAGE BANKERS ASSOCIATION OF AMERICA MBA

in this issue

CHALLENGES AND PROBLEMS IN MORTGAGE INVESTMENT ★ THE SHELL HOUSE INDUSTRY
THE CONDOMINIUM ★ CONVENTION PREVIEW



SUBURBIA *federal* SAVINGS and Loan Association

June 26, 1961

Mr. Benjamin Levinson, President
Franklin Mortgage Corporation
915 First National Building
Detroit 26, Michigan

Dear Mr. Levinson:

Our accountants have recently rendered their report of our annual audit.

It will please you to know that your good Company's record for efficiency, delinquency reports and collections appeared outstanding. I would also like to comment on your delivery of documents for purchase they are complete in every detail.

We wish to congratulate you on your constant increase in servicing accounts and hope we will continue to be an integral part of this growth.

With all good wishes for your continued success and good health.

Cordially

President

VID:er

ASTORIA FEDERAL SAVINGS AND LOAN ASSOCIATION

LONG ISLAND CITY 3, N.Y.

August , 1961.

Mr. Benjamin Levinson, President
Franklin Mortgage Corporation
915 First National Building
Detroit, Michigan.

Dear Mr. Levinson:

Few occasions inspire me to write a letter commending persons or firms that are doing business with our association.

I made a personal investigation among the many servicers we use throughout the country and I am pleased to inform you that you and your company have rendered remarkable service to us.

We are always pleased to receive the pertinent instruments when we purchase loans from you, because they are neatly labelled and set in proper order so that our mortgage department has no difficulty reviewing the files.

We are also impressed with the exactness in which you make collections and report delinquencies.

With best wishes for further success and hope you continue with your present standards for many years.

Very truly yours,

EDWARD J. RIESBECK
PRESIDENT

EJR: mc

THE BINGHAMTON SAVINGS BANK

BINGHAMTON, NEW YORK

June 30, 1961

Mr. Benjamin Levinson
President
Franklin Mortgage Corporation
915 First National Bank Building
Detroit 26, Michigan

You know Ben,

it isn't often that people take the time to pass out orchids when things go well.......but just let something go wrong and then see the ash cans fly. This is a switch.

Our records indicate that we have been doing business with you for the past ten years. During this time we have acquired mortgages from you aggregating close to $ 12, 000, 000 with our active account running between $ 6, 000, 000 and $ 7, 000, 000 at all times and involving some 800 mortgages.

No small part of the success of our Bank has been our relationship with Ben Levinson and Franklin Mortgage Corporation. Without exception, we can point with satisfaction to the sustained high level of servicing we have received, the promptness with which remittances have been dispatched, the high quality of offerings submitted for our consideration and the cordial relationship between members of our two staffs.

In other words Ben, -- during these ten years of association, you have done a mighty fine job for us. We hope that this association has been equally pleasant and profitable for you.

Sincerely yours

CORNELIUS C. VAN PATTEN
President

United Federal SAVINGS AND LOAN ASSOCIATION

LOCUST AT FOURTH STREET — DES MOINES 9, IOWA

June 27, 1961

Benjamin Levinson
Franklin Mortgage Corporation
915 First National Building
Detroit 26, Michigan

Dear Ben:

We at United Federal were pleased to receive the announcement of your intention to move to larger quarters, as it is always pleasant to be associated with success such as yours.

I want you to know that we are pleased, not only with the efficient manner in which you have handled the servicing of our $3,000,000.00 worth of Mortgage Loans, but are also impressed by your ability to gauge the market in advance, and are consequently able and willing to advise us in our investment policy.

Undoubtedly the integrity and devotion which you and your associates put into your business will continue to pay dividends, and the Franklin Mortgage Corporation will continue to enjoy a healthy and sound growth. We hope we will continue to be a part of that growth.

Please give my personal regards to our many friends on your staff.

Sincerely yours,

Joseph L. Strasser,
Executive Vice-President

JLS:mm

SERVICING $50 MILLION ...IN OUR THIRD YEAR

how our investors regard our performance

FRANKLIN MORTGAGE CORPORATION

915 First National Bank Bldg.
Detroit 26, Mich.

Benjamin Levinson
President

---

the Savings Bank
WOONSOCKET INSTITUTION FOR SAVINGS
WOONSOCKET, RHODE ISLAND

ALBERT N. PLACE
PRESIDENT

August 8, 1961

Mr. Benjamin Levinson, President
Franklin Mortgage Corporation
1724 National Bank Building
Detroit 26, Michigan

Dear Ben:

Your prompt action and strong support in response to my recent letter is sincerely appreciated.

The firmly worded telegrams you sent to Senators and Representatives and the President will be very helpful to our industry in our opposition to the tax legislation in question. Thank you for your very fine cooperation.

With reference to the delinquency situation, I was happy to learn that you have reduced it to six at the end of July, and I have passed on to Mr. Gauthier the reports you forwarded. I guess we caught you unawares when we made our last comparison, but I would be willing to wager a fair sum that it won't happen again.

It certainly is a pleasure to forward the enclosed letter in which we sincerely compliment you and the Franklin Mortgage Corporation for the excellent service we have received over the years.

Looking forward to the pleasure of a personal visit from you soon,

Sincerely yours,

Al

Occidental Life
INSURANCE COMPANY OF CALIFORNIA
Life • Accident & Sickness • Group
HOME OFFICE 1151 SOUTH BROADWAY, LOS ANGELES 54
Telephone Richmond 8-4181

June 26, 1961

Mr. Benjamin Levinson, President
Franklin Mortgage Corporation
915 National Bank Building
Detroit 26, Michigan

Dear Mr. Levinson:

I want to take this opportunity to commend you and your associates for the excellent manner in which you have handled the servicing of Occidental's mortgage loans during the last three years since your company took over our account.

I realize the many difficulties with which our borrowers in the Detroit area have had to contend during this period and appreciate the work your office has done to assist them with their problems as well as to avoid any loss to us on our portfolio.

We are especially well pleased with the efficient and effective manner with which you have handled the processing of foreclosures and transfers of properties to the Federal Housing Administration and the Veterans Administration for us.

I have followed the wonderful growth of your company with keen interest and sincerely hope that its fine success will continue for many years.

With highest personal regards!

Sincerely,

Thomas S. Hession
Vice President

TSH:bm

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA
730 THIRD AVENUE
NEW YORK 17, N. Y.

ELWOOD B. WATERS
ASSOCIATE MORTGAGE OFFICER

June 27, 1961

Mr. Benjamin Levinson, President
Franklin Mortgage Corporation
915 First National Building
Detroit, Michigan

Dear Ben:

Just a line to inform you we have just completed a survey of our numerous servicers from the standpoint of originating and servicing of FHA and VA loans for our Association.

We are happy to report the survey reveals that the Franklin Mortgage Corporation is rated one of our top servicers. We thought that you would be interested in knowing this and wish to extend our congratulations on the good record you and your personnel have performed.

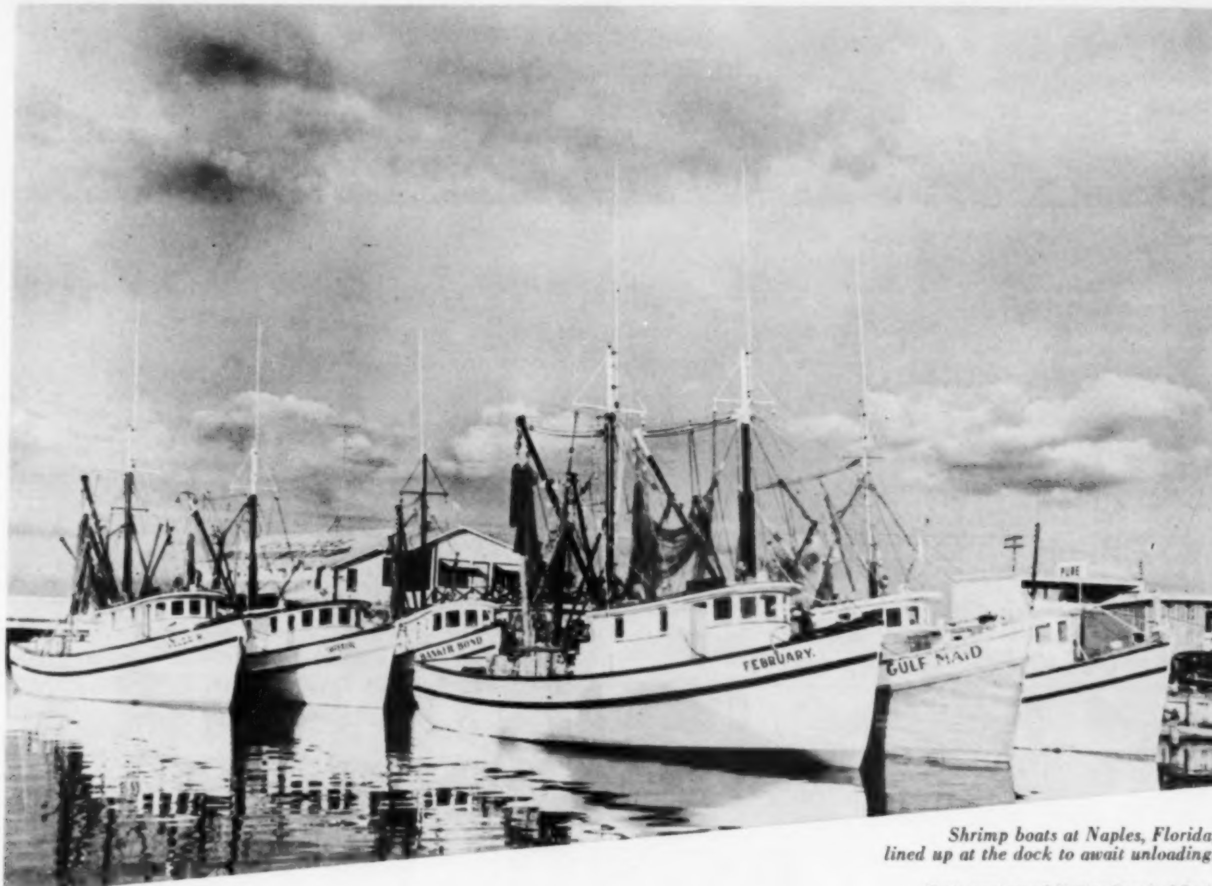
We hope that you will maintain this splendid record as you continue to grow.

Sincerely yours,

Elwood B. Waters

EBW:dm

ONE OF A SERIES OF ADVERTISEMENTS DEPICTING THE BEAUTY OF OUR FLORIDA COMMUNITIES



Shrimp boats at Naples, Florida, lined up at the dock to await unloading.

Photo courtesy of Naples Board of Realtors and Naples Chamber of Commerce.

The Florida lawyers' organization for guaranteeing titles to real estate.

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Lawyers' Title Guaranty Fund

(The Fund)

P. O. Box 2671 Office at 22 E. Gore Ave. Orlando, Florida

MBA CALENDAR

October 30-November 2, 48th Annual Convention, Americana Hotel, Miami Beach, Florida

December 10-16, Second Annual Case-Study Seminar on Income Property Financing, Michigan State University, East Lansing, Mich.

With the above meeting, MBA's calendar for 1961 ends and this is a good time to look ahead to next year—and even beyond.

1962

February 19-20, Midwestern Mortgage Conference, Chase-Park Plaza Hotels, St. Louis.

March 19-20, Loan Administration Clinic, Chalfonte-Haddon Hall Hotel, Atlantic City, N. J.

May 14-15, Loan Administration Clinic, Arlington Hotel, Hot Springs, Arkansas

May 21-22, Eastern Mortgage Conference, Waldorf-Astoria Hotel, New York

July 19-21, Western Mortgage Conference, Olympic Hotel, Seattle

October 1-4, 49th Annual Convention, Conrad Hilton Hotel, Chicago

1963

January 14-15, Loan Administration Clinic, Hotel Robert Meyer, Jacksonville

February 18-19, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago

March 18-20, Southern Mortgage Conference, Roosevelt Hotel, New Orleans

May 6-8, Eastern Mortgage Conference, Americana of New York, New York

May 16-17, Loan Administration Clinic, Hotel Muehlebach, Kansas City, Missouri

September 30-October 3, 50th Annual Convention, Mark Hopkins and Fairmont Hotels, San Francisco

The Mortgage Banker

PUBLISHED MONTHLY BY THE

MORTGAGE BANKERS ASSOCIATION OF AMERICA

Robert Tharpe, *President*
Carton S. Stallard, *Vice President*
Dale M. Thompson, *Second Vice President*
George H. Dovenmuehle, *Treasurer*
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GEORGE H. KNOTT, *Editor* — ROBERT J. BERAN, *Associate Editor*

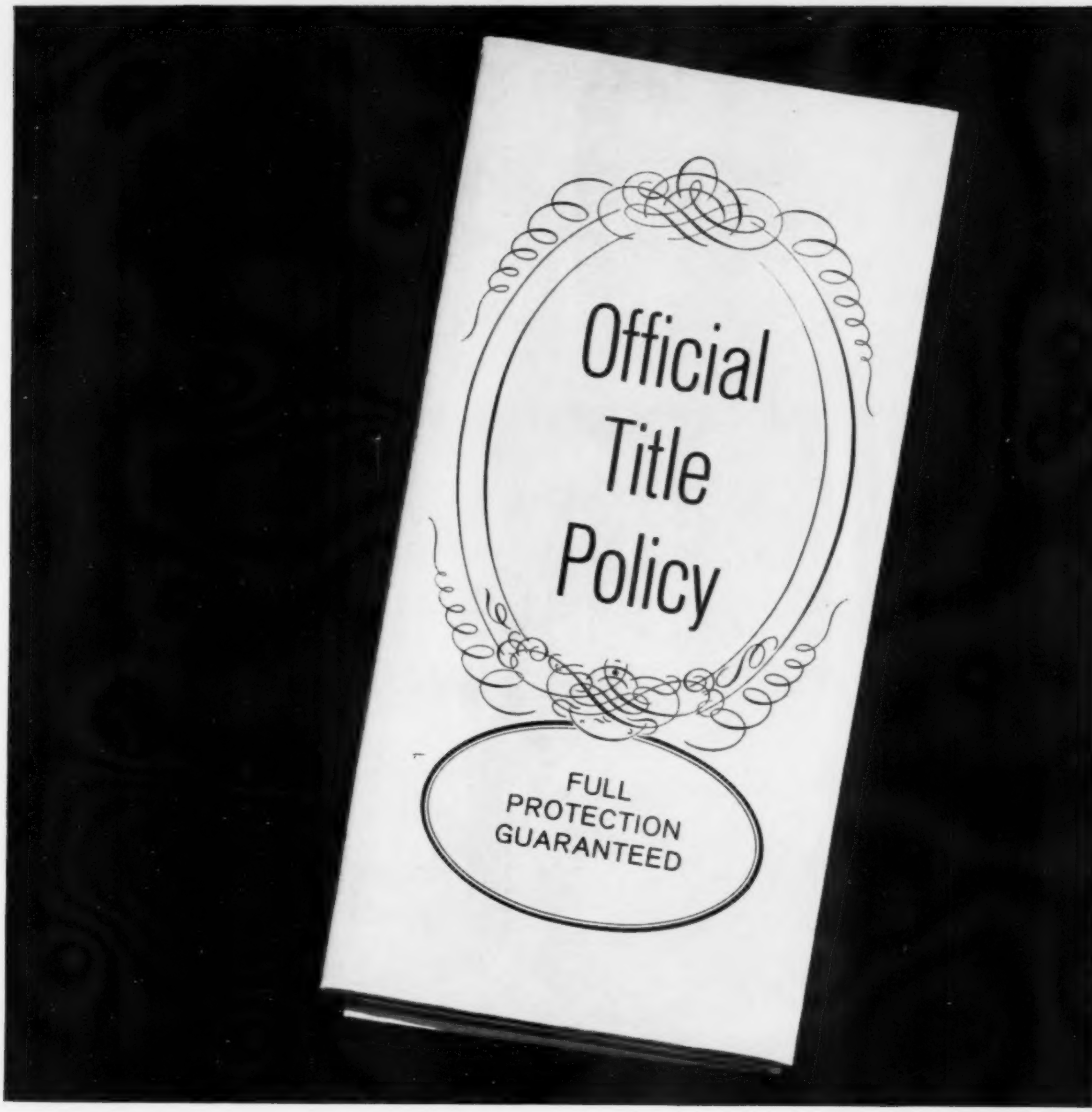
Volume 22 — October, 1961 — Number 1

Contents

▶ *Clarification and Explanation:* In the August issue of The Mortgage Banker appeared an article by Malcolm C. Sherman about the peculiarities in various state laws effecting the purchase of mortgages by investors nation-wide. Some members in various states have taken exception to portions of it, not because of inaccurate statements, but because what was said was not supplemented by more detail and explanatory interpretation.

In Illinois foreclosure costs were cited as rather high and the schedule of fees given was that of the Bar Association. Actually, this schedule is not universally used and foreclosure can be, and is, a less expensive process. (By a coincidence, the article appeared at exactly the time a most significant reform was being realized in Illinois law. (See page 14, The Mortgage Banker, September).

For Tennessee the article stated that "the borrower has a two-year redemption following a foreclosure sale." This is true, but in every deed of trust the borrower waives this right and has no redemption period.



WHAT'S MISSING?

The name of the company that issues it. And without that name, it's as worthless as an unsigned check. When your company chooses a title service, check that company's experience, its facilities, its management, its record, its reputation. Only in this way can you determine the real worth of the services you get, for a title policy is only as reliable as the title company that stands behind it.

NOTE: a check of Title Insurance and Trust Company will show that it is California's longest-established title company • has the best title searching facilities—including America's largest staff of title experts and an up-to-date set of land records • is run by a sound, conservative management • has capital, surpluses, and reserves of over $78 million.

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How It Looks to Heller

. . . here you're getting the economic advice and counsel the President has received, a summation by his principal economic adviser of how the future looks. It adds up to a picture of hope and anticipation, built upon the factors which have contributed substantially to business recovery so far and others which will keep the economy on a sound basis. And that's saying a lot in view of the tensions and conflicts abroad today!

———WALTER W. HELLER
Chairman of the Council of Economic Advisers

SPURRED by the Kennedy Administration's recovery programs, and with the added stimulus of the stepped-up defense and space programs, the economy is well on its way to a strong and buoyant recovery. The rebound has already carried production to new highs:

▶ The industrial production index in July rose to 112 (1957 = 100), 10 per cent above its low point in February;

▶ Gross national product in the April-June quarter rose to a record annual rate of $516 billion (revised figure), an increase of $14 billion in real output over the recession low.

So far, so good. The ground lost on the production front in the 1960-61 recession has been regained, and then some. But this quick start will turn into a full and satisfactory recovery only if (a) we take up the slack that has characterized the economy ever since 1956-57; (b) we catch up to our potential, which grows at at an average of 3½ per cent of $18 billion per year; and (c) we step up our rate of growth beyond this 3½ per cent.

What does this demand of economic policy, both public and private?

▶ Enough new jobs to bring the rate of unemployment from the near-7 per cent level, where it has hovered for 8 months, down to 4 per cent or less.

▶ Stronger markets to take up the slack in our industrial plant, which is operating well below its capacity—as witness the average July operating rate of 80 per cent of capacity in basic metals, chemicals, textiles, and pulp and paper.

▶ More investment—both in plant and equipment and in the less tangible factors of education, training, research and technology — to expand output and cut costs.

▶ Maintenance of reasonable price stability, and continued progress to-

ward equilibrium in our balance of payments position.

On the demand side, the prospects run from good to excellent. I foresee a rolling recovery that will feed not only on inventory restocking and government stimulants but on reawakening consumers and a pick-up of investment in plant expansion and modernization. These favorable prospects, and particularly the growing impact of President Kennedy's program to meet the Soviet challenge in Berlin and elsewhere, are central to a reappraisal of the economic outlook which we are currently undertaking in Washington. It is fair to say, even now, that the new figures which grow out of this process will significantly exceed the earlier projections of $530 billion for GNP in the fourth quarter of 1961 and $550 billion by mid-1962. And, along with expanding output, we will now begin to make significant inroads on unemployment, though the return to 4 per cent levels and below —which we last achieved in 1957— will not be quick.

Given the basic factors that promise continuing recovery, economic policy must be alert to the dangers that lurk in any vigorously expanding economy. What are the prospects for price stability and improvement in our balance of payments? A new round of inflation or deterioration of our payments position would call for counter measures —a tightening of monetary and fiscal policy is our front line of economic defense—that tend to exert a considerable part of their restrictive pressure against production and employment. On this score, the lessons of 1959-60 are painfully instructive.

Recovery in 1959-60 was retarded and eventually stalled well short of full employment by a combination of (a) a drastic swing from a Federal budget deficit to a Federal budget surplus—from a deficit rate of $11 billion (on a national income basis) in the second and third quarters of 1958 to a $6½ billion surplus in the first quarter of 1960; and (b) a swift rise in long-term interest rates—faster than any in the past century in a comparable phase of the business cycle.

What is the prospect that this unfortunate experience will be repeated in 1961-62? The answer hinges mainly on four factors:

▶ *The balance-of-payments outlook:* Substantial improvement has already occurred, and the record for 1961 will be better than for 1960. But the time for complacency on this front is far off. Vigorous recovery will stimulate imports and intensify our payments problem unless we improve the competitive position of our exports and attract and retain more capital through higher profits.

▶ *The prospect for inflation:* Price indexes have been remarkably stable in recent months and because of large idle capacity and unemployment, the likelihood of excess demand or bottleneck inflation seems distant at the present time. Only a wave of crisis-induced scare buying and inventory speculation—not now in sight—would upset this calculation. Pressure from the cost side is not great at the present

time, especially in light of the favorable outlook for sizeable increases in productivity and the recent record of modest wage increases.

But a word of caution is in order on the price-wage front. The recovery now under way can generate higher profits and higher wages without higher price levels. Increased volume and higher productivity will lift profits to new records. More jobs, longer hours, and wage increases consistent with productivity gains will also lift wage payments to new records. In this setting, it can be hoped that industry will not succumb to the natural temptation to "charge all that the market will bear," and that wage negotiations will, by the same token, stay within the bounds of productivity increases. If this occurs, the present favorable prospect for price stability in the months ahead will be greatly strengthened, as will the prospects for sustained recovery.

▶ *Budgetary developments:* President Kennedy's pledge backed by the demonstrated revenue-raising power of our Federal Tax system (which, for example, boosted the annual rate of revenue flow into the U. S. Treasury by $20 billion from mid-1958 to mid-1960) promises a balanced budget in the fiscal year starting next July 1. Yet, the swing will be considerably less violent than in 1958-59, given present tax rates and prospective expenditure patterns. The budget deficit this year will be less than half the $12.5 billion deficit of fiscal 1959, and rising expenditures within the framework of a balanced budget for fiscal 1963 will avoid excessive fiscal contraction.

▶ *The outlook for monetary policy:* Although we enter the recovery with a substantially higher level of interest rates than in 1958, there exists a consensus within the Administration that present circumstances call for a continuation of a policy of monetary ease. As President Kennedy stated on May 25, "The full financial influence of the Government must continue to be exerted in the direction of general credit ease and further monetary growth while the economy is recovering." At the same time, it is fully recognized that if recovery turns into boom, if inflation threatens, if the payments balance worsens, central banking policy, as our most flexible instrument, can be quickly revised to become an instrument of restriction instead of a generator of expansion.

But, on balance, today's prospects with respect to the price level and the balance of payments are favorable to a continuation of monetary-fiscal policies which will not choke off economic recovery.

Where the Market for Mortgages Will Be Tomorrow

. . . but not the market that comes to mind first . . . this is the market of people and people alone. No one who keeps informed has to be told that there is a great and enormously significant change taking place in the various age groups of U. S. citizens and that this change will accelerate. FHA studies show that about three fourths of new homes are bought by people in their twenties and thirties. There's a change coming here, too, and for the better. Yes, the market for mortgages in the years ahead will consist of a somewhat different group of people as far as age is concerned.

THE age structure of the American population has reached a major turning point as far as the growth trend in the number and proportion of younger adults in the total is concerned, a development which is certain to have a profound influence on the economy and its progress in the years ahead.

The change has already become apparent in an upturn in the number of those in the 20 to 29-year-old age bracket, and in a few years will start to spread to those in their thirties.

It is in marked contrast with the trend of the last two decades when the nation's population boom was dominated by unusually high growth rates of children and those in their middle and older years. In fact, projections indicate that the age group in its twenties will increase by more than a fifth in the last half of the current decade to pace the country's population growth for the first time in the present century.

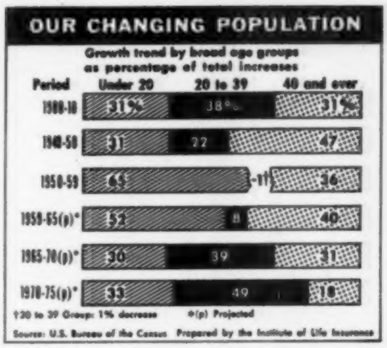
But mere growth in numbers, of

course, is not of itself a guaranty of our economic future. Jobs and opportunity will have to be provided for the rising number of younger adults in the working population as well as for its more mature members. This adds new emphasis to the employment trends and problems which have become manifest in recent years. It likewise re-emphasizes the need for greater economic growth than has been achieved in recent years and for stimulating the forces which will help bring this about, particularly more saving and investment, increasing productivity, and tax reform to encourage initiative.

The importance of the new population trend is underscored by the fact that the younger adults in their twenties and thirties are in many ways the economic backbone of the nation. They are marrying young—under 23 for males on the average and just over 20 for girls, founding a family, establishing a home, and building a career.

Thus for the great majority in this age bracket, at their stage in the life cycle, it is the period of the greatest needs and responsibilities. And an indication of the economic impact is provided by a recent FHA study of its mortgages, which shows that those in their twenties and thirties are by far the nation's biggest home buyers, together purchasing about three-quarters of new homes and close to this proportion of existing homes. Studies of the markets for automobiles and other goods reveal that these age groups are of major importance here, too. Thus a lift is in sight for housing and durable goods, two sluggish economic performers recently.

Because of their needs and those of their growing families, large saving is not a characteristic of younger adults as a rule and personal debt tends to be relatively high. Nonetheless, they are looking ahead and laying the foundation of their future security and protection through life insurance. The figures show that the 20-39 age group leads all others in purchases of ordinary life insurance, acquiring 50 per cent of the number of policies and two-thirds of the face value annually.



And along with this is the fact that because of their rising educational attainment, training and skills, it is the younger adult group that will provide America with its scientific, technical, administrative and political brains and leadership in the years to come. Thus its numerical growth trend is of fundamental importance, and the more so today in view of the rising accent on youth in the handling of our economic and national affairs, and the multiplication of the challenges confronting the nation at home and abroad.

The Census Bureau figures show that the 20 to 29 age group made the poorest showing in growth of the entire population during the last two decades, and actually declined by 1¾ million between 1950 and 1959 as the result of the low birth rate of the Thirties. During the first half of the current decade, however, this group is expected to increase by more than 2½ million, and during the 1965-70 period the increase is expected to top 6 million. If the latter is achieved, it alone will represent more than two-fifths of the entire population rise of 14½ million anticipated by the Census Bureau between 1965 and 1970.

The age group between 30 and 39 is currently in a downtrend, reflecting past population patterns, but an upturn is expected for the number in their early thirties during the latter half of the current decade and the rise will encompass the entire age group as we enter the Seventies. Taking all the younger adults together, those between 20 and 39, Census Bureau projections expect their number to increase by an estimated 8½ million between 1970 and 1975, or practically half the entire population rise anticipated in that period.

Patterns in { HOME BUILDING / HOME FINANCING

Home building, and its hand maiden, mortgage financing, are the subject of an exhaustive review by the Cleveland Federal Reserve Bank. The charts shown here tell a story. Excerpts from the Bank's story:

A factor which has contributed importantly to recent patterns in home-building and financing is the enlarged financing operations of mortgage companies. The role played by mortgage companies explains in part the greater specialization that has evolved in mortgage credit, particularly in the financing of government-insured mortgages.

Both mutual savings banks and life insurance companies obtain government-insured loans largely from mortgage companies. Mortgage companies have more than doubled their financing activity in the past decade. During 1960 these financial institutions originated nearly three-fifths of the total volume of government-insured credit. On the other hand, holdings of mortgage credit by mortgage companies have been nearly negligible, demonstrating quite clearly that mortgage companies operate with substantial turnover in mortgage loan portfolios.

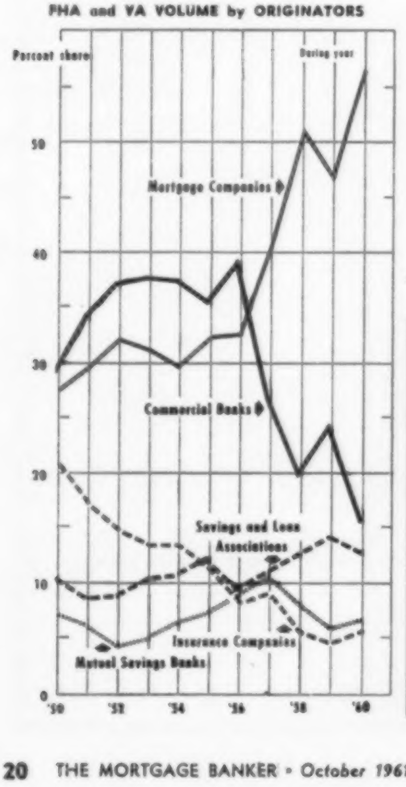
• • •

An investor in mortgages is interested principally in the yield on the mortgage as compared with other capital market instruments. Data on the terms of home mortgages are limited, particularly for conventional loans. The only data regularly available on mortgage yields is a national average of prevailing discounts or premiums on home mortgages insured by FHA. Discounts or premiums are the difference between the market price and the face value of a mortgage. By offering a discount (lower) or premium (higher) price for a mortgage, lenders are able to adjust a fixed interest rate in order to obtain a specific yield.

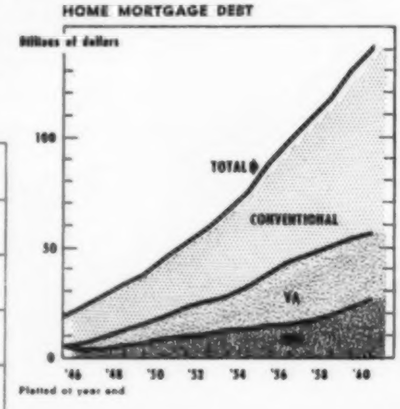
Since 1948, the effective yield on FHA-insured mortgage credit has tended to be about 1.5 percent greater than the yield on prime corporate bonds (Aaa). Broadly speaking, the fluctuations of corporate bond yields have been substantially greater than those of FHA-insured mortgages.

A discernible pattern in the behavior of yields on FHA-insured mortgages in the postwar period until recently has been the tendency to lag behind corporate yields during both periods of recession and expansion. To a considerable extent, both the relative narrowness of fluctuations in mortgage yields and the lag in relation to changes in capital market conditions reflect basic differences in the techniques and characteristics of mortgage markets as compared with those of other capital markets.

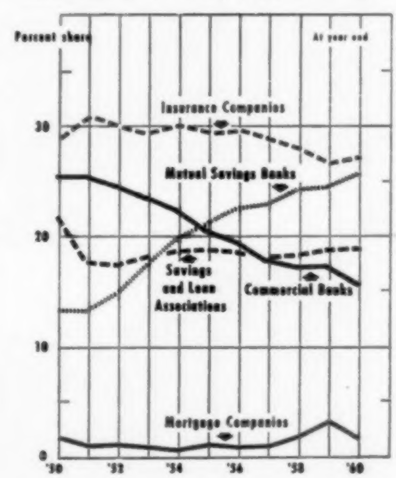
FHA and VA VOLUME by ORIGINATORS



HOME MORTGAGE DEBT



OUTSTANDING FHA-VA by TYPE of HOLDER



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The Issues We Face in Mortgage Finance

All over the country this past year, in appearances before many kinds of organizations, President Tharpe has enunciated many ideas and themes pertaining to mortgage banking, housing policy and the general economy but none has been used more consistently, and with greater force, than the two he incorporated in his recent address before members of the Savings Banks Association of Connecticut at their annual convention in Montreal. Six months before he had occupied the same rostrum and hammered home the same points: First, that we cannot hope to achieve without inflation the economic expansion that is clearly called for if we fail to increase our savings. Clearly it is a great and pressing national need, but one for which we have no national policy of any kind. Second, the country must have the kind of market mechanism embodied in FHA, but the years of tampering with FHA, of adding special functions, of revamping and revising, subjecting it to all kinds of outside controls—political control is the foremost—all this has greatly impaired its usefulness and efficiency. The time to call a halt is here, a return to its original objectives is sorely needed. These two single ideas are, most will readily agree, at the top of The Issues We Face in Mortgage Finance.

By MBA President Robert Tharpe

THE only means of achieving economic expansion without inflation is to finance our vast needs for capital growth with funds that have been accumulated by saving. The most dynamic growth results from the private investment of voluntary savings rather than the centrally directed investment of savings forced through taxation. The proposition is that a flexible, adaptable, progressive system of private financial institutions can provide the most efficient means for both collecting savings and channeling them into the areas of capital demand.

It is, however, one thing to accept these principles and another to give them force. If we deeply believe in them, then we must devote ourselves to their realization. We must subscribe to, and advocate, and press for the affirmation of a national policy on saving and investment. Even this will not be of much use unless we are able to translate policy into practical application to tax policy, governmental relationships, and institutional arrangements.

I regretfully conclude that, during this past year, we have not progressed a great deal either toward the development of a savings policy or toward its application. On the contrary, we have retrogressed. We have had a growing confusion of principle and conflict in action that has weakened rather than strengthened our private savings and credit system.

This year should have taught all of us who are concerned with savings and investment the dangers of division among us. It should have warned us that, if there is no way in which the desirable diversity in organization and function among our institutions can be prevented from becoming a bar to an equally desirable unity in principle, then we are sunk. A divided and quarrelling industry will be no match for an expansive government.

What can we do? First of all we may as well face up to the tax issue since that is certain to be high up on the order of business in the next session of Congress. Here I should like to make as clear as I can the position of the Mortgage Bankers Association. The Association is not committed to any specific tax arrangement for any class of financial institution. It is not in a position to have views on the details of the methods by which various types of institutions should be taxed and it does not pretend to be expert in these matters.

The Association does, however, consider that it may appropriately take a position on principles affecting the taxation of financial institutions. The principles it would assert are these:

▶ The income received from similar functions should be taxed in the same way for all types of institutions;

▶ The taxing method should be so designed as to assure the minimum impediment to incentives to save and to invest savings in privately owned fixed capital, including housing.

These principles are fundamental ones for the Mortgage Bankers Association which, in its successive statements on public policy, has consistently advocated strengthening and broadening the private home mortgage credit system.

In regard to the first of the tax principles I have stated, our Association believes that income directly attributable to the saving function should have the same tax privileges, irrespective of the type of institution that is receiving the savings; that income going to stockholders, where these exist, should be taxed similarly whether it is a commercial bank or a stock savings and loan association that is involved; and that income derived from the origination and servicing of loans for others should universally be taxed in one manner.

When it comes to the application of the second principle, the determination must be made as to the degree of importance we are to put on the revenue theoretically obtainable from any given source and on the desirability of encouraging saving. It is all too easy, in the urge to close so-called tax loop-holes, to close also the sluice gates of saving and investment.

It was because the Mortgage Bankers Association felt that the Treasury had given insufficient regard to these principles outlined, that its hunt for a modest and dubious increase in revenue had clouded more vital considerations, and that it was willing to see private credit operations superseded by direct government operations, that the Association was impelled to take a public position on the recent tax proposals.

In some quarters this was thought to be none of our business. But I insist that the encouragement of saving is everybody's business and the maintenance and enlargement of the area of private investment is everybody's business. Without these we cannot have a free economy, an expanding economy, or a non-inflationary economy. And if we have to make sacrifices elsewhere to these ends, they are worth even a stiff price.

In the interval before Congress returns, there is time, if the will exists, to agree on principles and to resolve differences on this tax issue. If the Mortgage Bankers Association can in any way assist in the attainment of these objectives, its good offices are available.

Unfortunately, our difficulties do not lie in the tax issue alone. As I have suggested, our problem is like a balance scale. On the one side we have the accumulation of savings; on the other, the potentials of investment. So far, I have been mainly concerned with the effects of taxation on the savings side of the balance. While it should be evident that the character of taxation may also seriously affect the degree to which investment potentials will be realized and the types and locations of investments that will be favored, it is not possible, through tax methods alone, to assure a broad and equable distribution of investment.

In the area of home mortgage investment, especially, something more is needed. This something more is a market mechanism that

▶ First, will give a high degree of standardization to the mortgage process and hence a simple method of making judgments on the quality of the paper;

▶ Second, will compensate for special risks involved in high percentage loans and hence make mortgage financing available to the great majority of our population; and

▶ Third, will simplify the task and minimize the hazard of lending at long distances and hence, again, broaden the universe within which home financing may take place.

The mechanism of mortgage insurance has proven to be a device capable of serving all these purposes; and its embodiment in FHA, and later in the loan guaranty system of the Veterans Administration, has been one of the most significant social and economic innovations of our time.

Since the VA operation is now definitely to be phased out, our concern is mainly with the FHA operation. Watching the developments of recent years, many have become apprehensive that the usefulness of the FHA system as a market mechanism is gradually being impaired—that, indeed, it already has been badly impaired. I need not go into the reasons for this rising apprehension. Most of you (savings bankers) are familiar with the FHA operation and have used it extensively, particularly in your out-of-state lending activity, and have become aware of the changes in direction and purpose that have been taking place as the result of successive amendments to the statute.

▶▶▶▶ *The effort to dictate the interest rate that will be charged on FHA mortgages has proven the most disruptive and inhibitive feature of the existing system. Every serious study of mortgage conditions and problems has pointed out the folly of interest rate control. The experience of this year has given a demonstration of its destructive effects on the availability of funds for insured mortgages—a demonstration that should be convincing to all except the most doctrinaire devotee of the planned economy . . .*

▶▶▶▶ *Part of this difficulty is the close political domination in which FHA is held . . . an anomalous situation since FHA operates completely on its own income, has built up its reserves from its own income and has repaid its early Treasury advances from its own income. Few instrumentalities of government have a better claim to independence of action . . .*

As a consequence, suggestions have been made that some substitute for FHA should be sought. Usually, these suggestions assume the premise that mortgage insurance offers the best device for effectuating a nationwide mortgage market. They assume, further, that a new, privately financed system of mortgage insurance can be developed to take the place of the privately finance but governmentally operated, mortgage insurance system that we have in FHA.

As to the first assumption, I believe most of us will be in agreement. As to the second, there is less certainty. While the exploration of the idea of an alternative system is worthwhile, the majority thinking within the Mortgage Bankers Association at the present time is that an effective substitute would be difficult to devise and even more difficult to finance and still more difficult to establish with the prestige that has accrued to the FHA insurance operation. Most of us feel, therefore, that the main present objective should still be to strive for a reemphasis of the original purpose and function of FHA.

Be that as it may, there are certain features of any system of mortgage insurance that are essential if it is to be a vital force in the housing market.

▶ It should be operative in all parts of the country. Otherwise the purpose of broad geographic coverage cannot be served.

▶ The plan should be simple and of general applicability. The idea that there must be a special type of financing for every conceivable sub-division of housing demand is contrary to the whole idea of a free market. It also makes the system so complex and cumbersome to operate that its usefulness becomes gravely imperiled.

▶ The insurance premium should be variable according to the degree of risk considered to be involved in the particular transaction. If the principle of mutuality is involved, better than expected experience produces a dividend for the borrower.

▶ The interest rate charged on insured mortgages should be freely determined in the market.

▶ The system should be completely supported by insurance premiums, examination fees and other charges for services rendered. There should, of course, be no restriction, except that of prudent and efficient management, on the use of income from these sources for administrative purposes and the build-up of reserves.

▶ The system must be subject to government supervision; but it should have continuity in direction and be removed as much as possible from transitory political influence.

At the present time, the FHA system fulfills some but by no means all these qualifications. It is operative in all parts of the country, though only the first halting steps have been taken, through the Certified Agency Plan, to extend its services in an effective way outside metropolitan areas. The original simplicity of the system has been completely lost amid the tangle of special-purpose operations. The lack of variability in the premium induces excessive caution especially in the handling of novel situations and so creates the demand for special-purpose insurance, where soundness of operation may be dispersed with.

The effort to dictate the interest rate that will be charged on FHA mortgages has proven to be the most disruptive and inhibitive feature of the existing system. Every serious study of mortgage conditions and problems has pointed out the folly of interest rate control. The experience of this year has given a demonstration of its destructive effects on the availability of funds for insured mortgages — a demonstration that should be convincing to all except the most doctrinaire devotee of the planned economy. There are some signs that reality is beginning to penetrate, though I regret to say the signs are still slight.

Part of this difficulty is the close political domination in which FHA is held. Most of the government agencies that exercise similar or related functions, such as the Federal Home Loan Bank Board, the FDIC, and the Federal Reserve, have some degree of remoteness from the immediacies of politics that permits them to carry out their functions without the intimate and constant political pressure to which FHA is subjected. Here again is an anomalous situation, since FHA operates completely on its own income, has built up its reserves from its own income, and has repaid its early Treasury advances from its own income. Few instrumentalities of government have a better claim to the independence of action that is required in a market-oriented operation.

In spite of this, Congress treats the agency as if it were operating on direct appropriations. It repeatedly hinders FHA's performance by refusing to permit sufficient leeway in the use of its income to meet the variations in activity that are characteristic of any business. Like the interest rate question, this also constitutes a major weakness in the FHA system and cries out for correction.

The questions that we now have to decide are: can these defects in the FHA system be corrected; if so, how may they be corrected; or, if not, what practicable alternative could be devised? Plainly, if FHA is to do the job that it was designed to do and that needs to be done, some major renovations are in order. As I have said, our people hope that these can be made and want to work ahead with this objective. At the same time I do not think any of us should close his mind to the difficulties that are involved or to the other possibilities that might be developed.

In any event, there is plenty of work to be done, if the private mortgage lending institutions of this country are to meet the demands for credit of the years ahead. We must speak up vigorously on the importance of savings and the need for a firm and consistent national policy on savings. We must devise reasonable and equitable means of expressing this policy in terms of tax arrangements; and we must urge fiscal and monetary actions that protect savings from the erosion of inflation.

Turning to the investment side, we must strive to improve the facilities for encouraging a nationwide distribution of private funds in the private market. In order to do this we shall have to strengthen our own faith in the private market as the instrumentality through which investment needs may most broadly, most fairly, and most successfully be made; and we shall have to show some missionary zeal in carrying that faith to the public and to its representatives in government.

If, as I hope, we are to place our dependence on the operation of the private market, then we must understand and make clear to others what it takes to make the private market

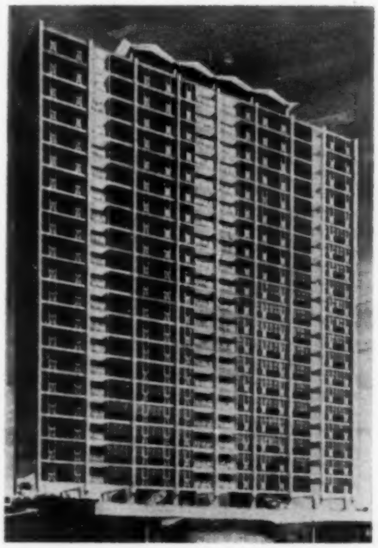
(Continued on page 52, column 3)

A New Look in Loans, the

SELDOM is housing legislation as dramatic as the change recently achieved through Section 234 of the 1961 Housing Act. The amendment adds to existing enabling acts a method, entirely new to this country, of financing cooperative apartment houses. It is known as the "condominium" cooperative, a word derived from the Latin meaning "joint sovereignty." Its purpose is to give apartment dwellers the chance to own, mortgage, and sell their apartments with the same freedom that a home owner has in relation to his house.

Condominiums, or, as they are known under Puerto Rican law, "horizontal properties," were recognized under ancient Roman law, and have been used as a medium for cooperative ventures in many countries in Europe and South America. They differ from our accustomed co-op entities in one vital aspect: each owner holds individual title to his apartment. (General cooperatives are held by corporate entities; the individual has control only through his stock certificate in the corporation, not through a deed.) The change raises new questions, and at first glance may appear complicated when one considers the status of common facilities such as elevators, boiler rooms, etc. But detailed methods for incorporating the use of these facilities, and establishing liability to maintain them, have been worked out in a practical manner.

Last year, the Banking and Currency Committee of the 86th Congress held hearings on condominiums. The Resident Commissioner of Puerto Rico and others familiar with them testified to their great popularity in that island,



A condominium in San Juan, where the idea all began, or at least where it has had its widest development. This is Condomino Atlantico, a 22-story apartment building planned for San Juan. A life company will provide mortgage loans for qualified purchasers of the 82 units, which, among other common areas, will share a second floor swimming pool.

e CONDOMINIUM

▶▶▶▶▶ *And a New Break for Apartment Owners, this innovation from Latin America which makes it possible for people to buy and sell apartments in almost the same way houses are sold*

▶▶▶▶▶ *Mortgage bankers have been intrigued by the condominium idea ever since it attracted its first widespread recognition as a part of the 1961 housing legislation. But long before that some mortgage bankers were convinced it was a good, workable idea, well adapted to this country and one which would add something of importance to the nation's housing. Condominium is here, ready for business, and from here and there one hears of condominium's moving into the action stage. Mr. Vogel has been in real estate for more than 20 years, some of this period as an executive for sponsors of housing co-operatives. Last year he published "The Co-op Apartment." His article in Architectural Forum is reproduced with his permission and that of the publication.*

By **HAROLD N. VOGEL**

where they have been legal for several years. Since passage of the U.S. law, FHA has been concluding its own research into specifics of rules and administration. Recently the Equitable Life Assurance Society of the U.S. agreed to finance for individual owners the apartments in a 22-story structure to be built under this plan in San Juan *(see cut)*. U.S. title companies have opened, or plan on opening, branch offices in Puerto Rico, and are becoming familiar with their particular aspects of this new activity. In New York, Alan H. Polkes, an ex-Webb & Knapp lieutenant, has organized a firm named Condominium Enterprises to avail the apartment-seeking public of the benefits of the new legislation.

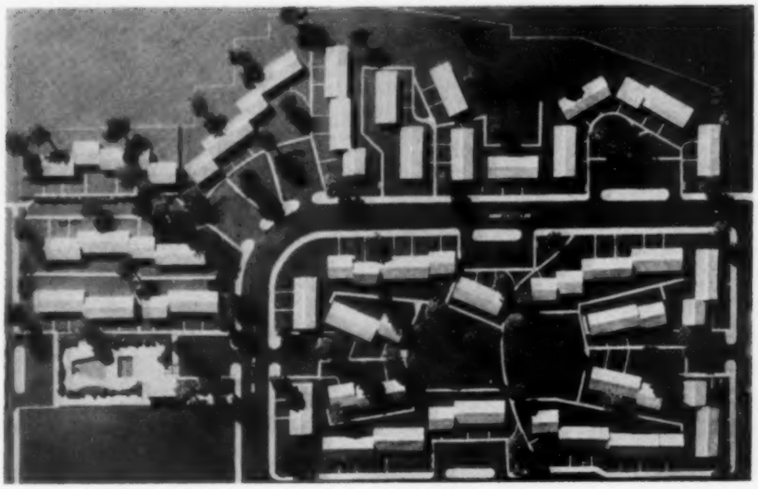
The major selling point about condominiums is that they allow the individual greater freedom than stock ownership does. This fact should open the market for cooperative apartments to additional thousands of potential customers who have not liked the usual restrictions of co-ops. Many apartment seekers want to own their apartments, not stock certificates, free and clear of mortgage indebtedness. Many others want to be free to finance their initial purchase by a mortgage, or to mortgage their premises later on, in any amount that economic conditions permit. Only with deed ownership goes the right to raise a mortgage in any amount which the value of the particular apartment warrants at the time; to pay off the mortgage at any time one decides; to rent, give, or bequeath the apartment in much the same way as a privately owned house. In condominiums, each deed is recorded in a separate transaction, and real estate taxes are levied on an assessment made of each unit. This overcomes the objection that many a would-be member of a cooperative feels against having a corporation or other organization hold title to "his" apartment.

In the condomium system, there is also a common liability to maintain "common elements of the property." These include, but are not necessarily limited to: 1) land upon which the structure stands; 2) foundations, roofs, halls, elevators, and heating plants; 3) all other devices or installations existing for common use, or necessary to the existence, upkeep, and safety of the property.

In addition, there may be "limited" common elements, such as hallways on each floor, which are largely limited to use by the owners residing on that floor. These owners as a group might well hire an architect to design or decorate the hall and elevator lobby on that floor, just as they individually seek the services of an architect for their own apartment.

In yet a third category are "private" common elements: such items as window glazing, screens, and awnings. By taking into account elements in all three categories, insurance policies may be issued with premiums based on the division of responsibility of the assured.

The condominium begins here. Right, a projected 98-unit housing project in Richmond, said to be the first use of the idea anywhere in this country. Buyers of the houses will become owners of all the common land and areas and in their monthly mortgage payments will be an assessment of around $3 for the maintenance of these areas, swimming pool, etc.



The economics of each owner's liability to maintain the property is established at the time the condominium is formed, and is based on the value of the apartment in relation to the value of the whole. The value thus established cannot change without the consent of all the owners. This value, however, does not affect the real or cash (market) value of the investment.

Purists who advocate only the customary concept of cooperative housing will be glad to note that Section 213 cooperatives have been excluded from the provisions of Section 234. Some supporters of 213 feel that condominiums will lead to speculation, while shutting their minds to the speculative aspects of resale policy in many existing cooperatives. Speculation, or selling at a profit made available through demand, cannot be legislated out of the minds of those inclined to think in this way. Quite the contrary, it can be argued that the ability to raise a new mortgage upon the resale of a unit solves the problem of "213" stockholders of collecting the increased equity they have built up by way of amortization payments. Under the condominium, retiring owners will be able to receive full value for their deed, and the new purchaser will have the considered opinion of the mortgagee on which to judge his value.

Builders undoubtedly will be quick to recognize the new market opened up to them by such "private-house" thinking adapted to multifamily structures. They, and buyers and their lawyers, should be familiar with restrictive covenants in deeds, and this is the method of control in condominiums. The common good that restrictive covenants serve is widely recognized, and Puerto Rico's Horizontal Property Law requires that each deed when recorded must contain, among other details, "everything relative to the administration of the property, and any further data in connection with the property which it may be advisable to set forth. . . ." A 1959 amendment to the Puerto Rican law requires that a certified copy of the plan of the apartment be filed with the deed.

Among U.S. states, Hawaii has led the way toward condominiums by passing an enabling act some time ago. Florida and California are considering similar legislation. In each of these states property values have increased so fast that condominiums present a logical solution to the distribution of this increase among many ownerships. Condominiums with favorable FHA terms can offer a solution to the home seeker who enjoys good credit standing through steady earnings, but who lacks the down payment. They can also add to the housing inventory for our elder citizens, particularly the large group of retired people who have paid off the mortgage on their original home, and now want to use the cash from its sale to purchase a new, mortgage-free home in an apartment house rather than another burdensome, single-family house.

The Housing Act of 1961 places FHA mortgage insurance limits for condominiums at the same $4,250 per room now prescribed by Section 213 for elevator structures located in high-cost areas (some 40,000 of which have already been created) and adds the further provision of a 97 per cent mortgage available on the first $13,500 of appraised value. This latter provision is similar to the provisions of Section 203, which are popular throughout the U.S. for private home construction.

The condominium combination of long-term financing in favorable amounts with the spirited help of the FHA should have the Utopian result of satisfying both builder and purchaser. It is an opportunity a large segment of the buying public has long been waiting for.

Urban renewal up-to-date, what's gone before and what's coming, in the view of Urban Renewal Commissioner William L. Slayton:

"We have approved some 900 projects in about 500 localities. Practically every city of 250,000 population and over is participating in the program. Approximately 200 of the communities engaged in urban renewal have populations of less than 25,000; of these, about 100 have fewer than 10,000 people.

"So here we have a real cross-section of America . . . large cities, small towns . . . projects embracing every aspect of physical improvement. All of the localities in the program have one common denominator—they are making the most dramatic, forceful, and comprehensive building and rebuilding effort in our history."

In Miami Beach

▶ *The Wonderful World of an MBA Annual Convention is about to unfold. It promises to be larger than ever before, but size means little if other things are lacking — quality, a tangible reason for attending, the prospect of being rewarded in a meaningful way, the opportunity to learn something of value that can be taken home and put to work.* ▶ *These are the specific ingredients which MBA's 48th Annual Meeting seems to have in generous measure.* ▶ *Miami Beach in 1961 is for members only, it's one of your valuable Association benefits. It's also your annual opportunity to be briefed on mortgage lending on a nation-wide basis.* ▶ *On the following pages are some highlights of what awaits you this year in the Wonderful World of MBA's Convention.*

Day by Day with MBA in Miami Beach . . .

FIRST DAY

October 30

FIRST CONVENTION SESSION

10:00 a.m.	Call to Order:	**Robert Tharpe,** President Mortgage Bankers Association of America President, Tharpe & Brooks, Inc., Atlanta
	Welcome to Florida:	**L. K. Horn,** President Mortgage Bankers Association of Florida Vice President, Lon Worth Crow Company, Miami
10:15 a.m.	President's Address:	**Robert Tharpe** "Major Foreign Economic Developments" **Raymond J. Saulnier,** former Chairman, the President's Council of Economic Advisers
10:45 a.m.	Address:	"An Appraisal of America's Domestic Economy" **Dr. G. Rowland Collins,** Dean Emeritus Graduate School of Business Administration, New York University
11:15 a.m.	Address:	The Hon. **Herman E. Talmadge** United States Senator from Georgia
12:30 a.m		YMAC Luncheon—"Unusual Commercial Loans"

SECOND DAY

October 31
8:00-9:30 a.m.

WORKSHOP SESSION

"Inside a Life Company Investment Committee Considering Industrial and Income Property Loans"

Moderator:	**Robert H. Pease,** Vice President Draper and Kramer, Inc. Chicago
Panel Members:	**Irving G. Bjork,** Vice President Connecticut General Life Insurance Company Hartford
	James W. Gibson, Assistant Treasurer John Hancock Mutual Life Insurance Co. Boston
	E. S. Ovenshine, Second Vice President New York Life Insurance Company New York
	Frank R. Shugrue, Vice President Bankers Life Insurance Company of Nebraska Lincoln
	G. D. Brooks, Vice President National Life and Accident Insurance Company Nashville

WORKSHOP SESSION

"New Wine for Old Bottles"

Moderator:	**Dr. Saul B. Klaman,** Director of Research National Association of Mutual Savings Banks New York	
Panel Members:	**Bundy Colwell,** President The Colwell Company Los Angeles	**Nels G. Severin,** President Palomar Mortgage Company San Diego

. . . A Program to Merit Your Time and Attention

C. C. Cameron, President
Cameron-Brown Company
Raleigh, N. C.

Philip Zinman, Chairman
South Jersey Mortgage Co.
Camden, N. J.

James T. Barnes, President
James T. Barnes Company
Detroit

A. F. Potenziani, President
Mountain States Investment Corp.
Albuquerque

WORKSHOP SESSION

"New Opportunities in FHA"

Moderator: **W. W. Wheaton,** President
The Galbreath Mortgage Company
Columbus, Ohio

Panel Members: **Herschel Greer,** President
Guaranty Mortgage Co.,
Nashville

Thomas D. Philipsborn, Treasurer
H. F. Philipsborn & Co.
Chicago

C. Franklin Daniels, Assistant Commissioner
Federal Housing Administration, Washington, D. C.
Speaking on nursing homes, housing for the elderly, condominium, etc.

WORKSHOP SESSION

"Federal Taxation as Applicable to the Mortgage Banker"

H. Cecil Kilpatrick
Kilpatrick, Ballard & Beasley
Washington, D. C.

Paul P. Wilson, Vice President
Schumacher Mortgage Co., Inc.
Memphis

Gordon Johnson, Controller
Sherwood & Roberts, Inc.
Walla Walla, Wash.

Edward J. Harney, Partner
Peat, Marwick, Mitchell & Co.
Chicago

10:00 a.m. — Water Show for the Ladies

10:00 a.m.-10:00 p.m. — Farm Loan Committee Tour

GENERAL SESSION

10:00 a.m. — Call to Order: **Dale M. Thompson,** Second Vice President
Mortgage Bankers Association of America
President, City Bond and Mortgage Co.
Kansas City, Missouri

10:10 a.m. — Address: "The Government's Role in Housing"
Dr. Robert C. Weaver, Administrator
Housing and Home Finance Agency
Washington, D. C.

10:40 a.m. — Address: "What Housing Will Be Like in the Rest of the Twentieth Century"
Perry Prentice, Editor and Publisher
House and Home
New York

11:00 a.m. — Address: "What Will the Mortgage Investment Picture Look Like in the Future"
H. Ladd Plumley, Chairman, and President
State Mutual Life Assurance Company of America
Worcester, Massachusetts

11:20 a.m.	Address:	"Mortgage Investments as Viewed by the Mutual Savings Bank Industry" **Samuel W. Hawley,** President National Association of Mutual Savings Banks
12:30 p.m.		YMAC Golf tournament, La Gorce Country Club

THIRD DAY

November 1 8:00-9:30 a.m.		**Repeat of Tuesday WORKSHOP SESSIONS**
10:00 a.m.	Call to Order:	**Robert Tharpe**
10:10 a.m.	Address:	"Will Savings Support the Demands of Our Expanding Economy" **D. Clair Sutherland,** Senior Vice President Bank of America San Francisco
10:30 a.m.	Address:	**Charles A. Agemian,** Controller General The Chase Manhattan Bank New York
10:50 a.m.		Annual Meeting and Election of Officers Awards
11:20 a.m.	Address:	"The Extent of the Soviet Economic and Political Penetration in Europe and Asia" **John Scott,** Foreign Correspondent, Time Magazine
6:30 p.m.		Pan American Carnival—Americana Hotel

FOURTH DAY

November 2

10:00 a.m.	Call to Order:	**Carton S. Stallard,** President Mortgage Bankers Association of America President, Jersey Mortgage Company, Elizabeth, N. J.

Government Housing Programs Prospects for 1962 A Symposium and Critique

For the Federal Housing Administration
Neal J. Hardy, Commissioner
Federal Housing Administration
Washington, D. C.

For the Veterans Administration
John M. Dervan, Director, Loan Guaranty Service
Veterans Administration
Washington, D. C.

For the Federal National Mortgage Association
J. Stanley Baughman, President
Federal National Mortgage Association
Washington, D. C.

For the National Association of Real Estate Boards
O. G. Powell, President
National Association of Real Estate Boards
Washington, D. C.

For the National Association of Home Builders
Leonard L. Frank, First Vice President
National Association of Home Builders
Washington, D. C.

For the Mortgage Bankers Association of America
Lon Worth Crow, Jr., President
Lon Worth Crow Co., Miami

Moderated by:
Samuel E. Neel, General Counsel
Mortgage Bankers Association of America
Washington, D. C.

Year's Most Important Event for Mortgage Men

While the promise of "MBA's largest Convention" has been held out often in the past—and usually proved to be accurate—this year's 48th Association Convention in Miami Beach, October 30 through November 2, warrants the anticipation of being the largest more so than almost ever before. More than three thousand, it is indicated, will be there, housed in hotels up and down Collins Avenue adjacent to The Americana Hotel, where the general sessions, the Workshop sessions, the Exhibit and most of the auxiliary events will be held. Attendance of three thousand from a membership of slightly over two thousand firms is unique among trade associations — usually a meeting will not produce a registration to equal actual membership.

Reflecting the changed character of the Association and its activities as it continues to grow from year to year, the MBA Convention in 1961 will not just be a series of general sessions, but will branch off into many pathways, one that of the Farm Loan Committee, another by the Young Men's Activities Committee and others as well.

Is there a central theme characterizing the 1961 Convention as has been true in some past years? Actually, no, although the past year has been one filled with unprecedented developments affecting mortgage banking. The 1961 housing legislation, of course, will be at the forefront of topics for consideration and review since this year's bill was by far the most comprehensive and far-reaching ever passed by Congress since it initiated federal participation in housing and housing financing many years ago—and every year since then there has been some kind of legislation. The 1961 bill is characterized by liberalization as much as anything else, but it is also a bill that gives accelerated impetus to urban renewal in recognition of the growing appreciation that the problems of urban America are among the most pressing for solution in the years ahead. The bill also opens up innumerable by-ways from the main highway such as condominiums, an entirely new modernization and rehabilitation program, etc. Further stimulation for more housing for our senior citizens, more nursing homes—all are reflective of the changing character of our times, our population and, seemingly, the things the citizens expect of government.

In addition, MBA members will find their Convention program a forum of authoritative discussion of the market for investments and particularly the market for mortgages. They will hear about the prospects of where we're going and how we're doing in the field of housing in general.

Yes, MBA at Miami Beach in 1951 is a Convention to anticipate and one not to be missed!


Sen. Talmadge


H. Ladd Plumley


Dr. Robert Weaver


Perry Prentice


S. W. Hawley


D. C. Sutherland


Neal J. Hardy


R. J. Saulnier


J. S. Baughman


O. G. Powell


Leonard Frank


Charles Agemian

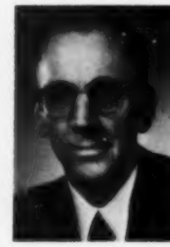
The Work in the Workshops

Robert Pease

James W. Gibson

G. D. Brooks

E. S. Ovenshine



Bundy Colwell

James T. Barnes

Dr. Saul Klaman

C. C. Cameron

Philip Zinman

A. F. Potenziani

MBA's 1961 Convention program in Miami Beach—to be given in a locale that seemingly is not the best for hard work and concentration—is being supplemented by what is, in effect, an entirely additional program. It is the Workshop sessions and there are four of them. Each one will be given twice and they are scheduled from 8:00 to 9:30 in the mornings of the second and third days of the Convention. Thus, everyone attending can catch two and it might be well to glance back at the Day by Day program itself to determine which two you plan to attend.

Mostly these Workshop sessions are fully described by the labels on them. The first is

Inside a Life Company Investment Committee Considering Industrial and Income Property Loans.

An important group of life insurance officials will sit as a committee considering many types of loans. The moderator, **Robert H. Pease,** who might more accurately be described as the originator seeking to place the loan, will have the selling job to do. The investors will have reservations and they'll tell what they are. It's aimed at providing the most realistic and most profitable medium by which we can see the likes and dislikes of investors for this or that type of loan.

The second in the series of workshops is

"New Wine For Old Bottles."

This is the session where a bit of explanation is in order. At this Workshop, **Dr. Saul B. Klaman** is being billed as a moderator when actually a more correct title might be something like "devil's advocate." The aim of this session is to go into, on a highly realistic and no-holds-barred basis, many of the perplexing developments which have sprung up in mortgage banking in recent years—matters such as compensation, investor relationship, etc.

Dr. Klaman, as one of the foremost and highly respected students of the field of mortgage banking, is fully familiar with all these developments—and he has his own opinions about each one. Sitting with him will be a group of six successful mortgage bankers, each one of whom conducts a diversified and large-volume business. They will be providing the answers to the questions which Dr. Klaman will be putting to them about this business of mortgage banking, how it is being conducted, the economics of each segment of it, where it is going. This session is one that can and probably will encompass a very great many of the problems that beset the industry today. It will be a surprise session where almost anything can go on the dissecting table; but whatever is introduced will come out with some authoritative answers.

The third workshop session is

New Opportunities in FHA.

This will be just what its name implies, a review of what congress did in the new housing legislation—the format which we will be likely operating under for a long time. The emphasis, however, will be on the new challenges, new opportunities and new loans which the bill provides. Housing for the elderly, nursing homes, urban renewal, modernization and rehabili-

Real Opportunities for Profit


H. C. Kilpatrick


W. W. Wheaton


Frank Shugrue


Irving Bjork


C. F. Daniels


Nels Severin

tation—they will all have a place at this Workshop where **W. W. Wheaton** will hold the moderator's gavel.

The fourth and final workshop will be devoted to

Federal Taxation as Applicable to the Mortgage Banker.

Tax problems directly affecting mortgage banking have mushroomed, it would appear and the subject seems to consume a great deal of mortgage bankers' time. At this workshop, MBA's new Special Tax Counsel, **H. Cecil Kilpatrick** will preside and the plan of the meeting calls for exploring all these various tax matters which confuse the industry. The panel group will be represented by mortgage bankers who have experienced various of these problems, supplemented by some of the most important authorities on the problems themselves.

And for the Ladies —

Just as the MBA 1961 Convention is being anticipated as the Association's largest in its series of forty-eight, the Miami Beach meeting can also be anticipated as a natural for the ladies. If no program at all had been arranged for them there would still be a world of things to do and see, Miami Beach being what it is: one of the world's foremost playgrounds. A great deal has been arranged for them, however, among them—

▶ *Luncheon and Style Show 12:30 p.m. Fontainebleau Hotel, Monday, October 30.* In one of the most glamorous settings in the world, the MBA ladies will enjoy a wonderful luncheon and see an appealing display of all the latest styles.

▶ *Water Carnival 10:00 a.m. The Americana Hotel, Tuesday, October 31.* This will feature Bob Maxwell's Miami Beach Aqua Show, all sorts of beautiful water ballet numbers, fancy diving and swimming, all done in an exciting setting. And every Convention day there will be the

▶ *Hospitality Suite, Mezzanine, Americana Hotel.* A Continental Breakfast will be served every morning and hostesses will be on hand to help plan your Miami Beach trip to maximum advantage. On one of those days, Wednesday, November 1, in the Hospitality Suite the ladies will find Frances, who will entertain them with individual palm readings. And, of course, the ladies' Convention trip will be climaxed Wednesday evening at the big

▶ *Pan American Carnival.* This is the time and the place where everyone at the Convention sees everyone else. This year it's a Latin American costume affair, featuring the music of the famous Bernie Cummins Orchestra, alternating with Mandy Campo and his Latin Septette. There will be a fine dinner and the show will be "Crazy with the Heat," starring Diosa Costello, who played Bloody Mary in South Pacific.

Yes, indeed, Miami Beach 1961 is a Convention for the ladies all right and the more who come the better Convention it will be. No need to worry about hotel facilities or things of that sort because Miami Beach has everything in ample supply.

- ***Events to Anticipate***
- ***YMAC's "Unusual Commercial Loans"***
- ***MBA Farm Loan Tour***
- ***"Golf at La Gorce"***
- ***Idea Fair***
- ***And Much More***

- ***In YMAC Projects***

Richard Mead

James Biddle

Paul Reynolds

No one should get the wrong idea about the comparison but MBA Conventions might be compared to a circus—there is something doing all the time in several rings of the arena. Many various events go to make up the four days on Collins avenue in addition to the main attraction itself. Some of them:

▶ *"Unusual Commercial Loans":* This is one of two special projects which MBA's Young Men's Activities Committee has arranged for the Convention and is a luncheon on the first day. **D. Richard Mead, Jr.,** of Miami, will preside and speakers will include

James B. Biddle, executive vice president, M. P. Crum Company, Dallas, speaking on "A Specific Leasehold Loan and Its Intricacies";

F. E. Scott, vice president, Lon Worth Crow Company, Miami, speaking on "A Future in Discount Store Financing" and

Paul G. Reynolds, vice president, Dovenmuehle, Inc., Chicago, speaking on "A Downtown Office Building."

▶ *Golf at La Gorce:* This is another project of YMAC and is scheduled for Tuesday, October 31, starting at 12:30 p.m. It's a full blown golf tournament at one of the country's great courses and there will be many prizes. Clubs can be rented and players participating must, of necessity, be limited to one hundred. Your $10 ticket covers registration and green fees.

▶ *MBA Farm Committee on Tour:* This is a project of the MBA Farm Loan Committee and is a full day bus tour to Tropical Farm on Lake Okeechobee, an opportunity to see Florida agriculture and its growing stock raising industry. It is Tuesday, October 31 on air conditioned buses, equipped with bars. There will be a box luncheon on tour and a cook-out dinner before returning to Miami Beach about 10:00 p.m. It's a fine opportunity to see, firsthand, an unique section of American agriculture—and an equally fine chance for farm mortgage originators to exchange views and opinions with farm loan investors. The host for the cook-out dinner is the Connecticut Mutual Life Insurance Co. and for the cocktails it will be **H. A. Hausmann** of C. B. Moak & Co., Inc. of Miami.

▶ *MBA Idea Fair:* This project was offered initially in Chicago in 1960 and took the form of a display by member firms of all types of services and how they are offered by individual member firms. It will be repeated in Miami Beach bigger and better than before.

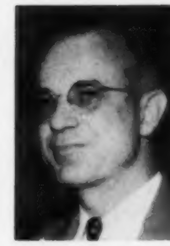
▶ *MBA Goes Fishing:* Eastern Air Lines, as they did in 1953 when MBA first met in Miami Beach, is sponsoring a fishing tournament for those attending the Convention. There will be prizes and for details of what you do to win one will be available at Eastern's booth in the Americana. Come prepared to catch a big one.

▶ *They'll Speak in Miami Beach—*

Dean Collins

E. J. Harney

Samuel Neel



Lon Worth Crow

▶ *The Committee in Miami—*

L. K. Horn

L. K. Horn, vice president, Lon Worth Crow Company, Miami, is chairman of the All-Florida Convention Committee which is assisting in the planning and direction of MBA's Convention in Miami Beach. Other members include R. C. Houser, president, Florida Bond and Mortgage Company, Miami; D. Richard Mead, Jr., president, D. R. Mead & Company, Miami; Bowen Nelson, president, Nelson Mortgage Company, Inc., Miami; F. Robert Quinlivan, assistant vice president, J. I. Kislak Mortgage Corporation of Florida, Miami; R. B. Roberts, III, president, Keyes Mortgage Company, Miami; Howard F. Walters, Federal Title and Insurance Corporation, Miami Beach; and Mrs. Clo Ann Grimes, assistant secretary, Stockton, Whatley, Davin & Company, Miami.

▶ *Election in MBA*

Robert Tharpe

Carton S. Stallard

Dale M. Thompson

Carey Winston

Convention-time is election-time in MBA and this year, at the annual meeting, the slate of officers to be presented includes Carton S. Stallard of Elizabeth, N. J. for president, to succeed Robert Tharpe of Atlanta; Dale M. Thompson of Kansas City, Mo., for vice president; and Carey Winston of Washington, D. C. for second vice president.

▶ *Exhibit*

Every year, at the past 21 MBA conventions, there has been an exhibit where members are offered the opportunity to see the latest developments in many activities which have an important meaning for them—new ideas in home design, in business machines, in servicing, in appliances. Make a note to inspect the exhibit carefully this year—you'll find a great deal that will be profitable for you.

▶ *Tours*

MBA has no officially-sponsored post-Convention tours this year as it had when last the annual meeting was in Miami Beach but one is being organized for the Bahamas. For details write Nassau Post Convention, Travel Headquarters, 36 S. Wabash Ave., Chicago 3, Ill.

Things to Do and See

MBA members attending the Miami Beach convention will have a refreshing taste of summer while the leaves are falling beneath the onslaught of frost at home.

Early risers can count on a zestful dip in the hotel swimming pool before business sessions begin and August's tan can be renewed. Golf, fishing or sightseeing can fill in any idle hours of the day, while evening entertainment runs from night clubs, to theater to greyhound racing.

Anyone arriving a few days ahead can see the University of Miami football team meet North Carolina under the lights of the Orange Bowl Saturday night, October 27. And gridiron fans who linger for a day will have the Miami-Georgia game the following Saturday night, November 3. The stadium is across Biscayne bay, a half-hour drive from Miami Beach.

Greyhound racing will be in progress at the West Flagler Kennel club, also about a half-hour drive on the mainland. The sport has pari-mutuel betting under the Florida racing commission.

While Miami Beach weather is never really cold, late October frequently brings the first chilly snap of the season. Temperatures possibly may drop to 58 or 60 degrees for a night or two. So topcoats worn when leaving home will see little use and the luggage should contain mostly summer wear.

Many visitors probably will be interested in going fishing, for this is one recreation that is closed for the year in most parts of the country and something that is never equalled in inland areas.

Comfortable twin-engine cruisers more than 30 feet long may be chartered, with a crew of two, for $45 a half-day, $75 all day. These craft accommodate four anglers fishing at one time and usually limit their parties to this number. Sailfish are the primary trophies sought, but a dozen other species may be taken. All tackle is furnished with the boat.

Boats may be chartered at docks along the bayfront and reach the fishing areas within 20 minutes after casting off, so an enjoyable outing may be completed before lunch, or between lunch and dinner.

Visitors interested in sightseeing probably can get their best view of mostly man-made Miami Beach by taking a cruise through the city's inland waterways. Here the sometimes startling architecture of modern homes, hotels and apartment structures are seen at an advantage.

Sightseeing buses or private automobiles may be used for visiting attractions on the nearby mainland. These include various commercial "jungles" featuring exotic birds and plants; a large aquarium exhibiting fish and other sea life; the showplace that is Hialeah Park; the Fairchild Tropical Garden and the Everglades National park.

The Salvage Value for Depreciation Purposes

Fourth in a series of articles on tax matters with special significance for mortgage bankers—this one on that controversial question of depreciation which has loomed so importantly in real estate.

By H. CECIL KILPATRICK

THE FIRST income tax law (1913) permitted the deduction, in computing taxable income, of a reasonable allowance for the "wear and tear of property arising out of its use or employment in the business." There were few changes in this provision prior to the Internal Revenue Code of 1954, the latest pre-1954 language being "a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence) (1) of property used in the trade or business, or (2) of property held for the production of income."

This brief and somewhat vague language invited and produced many controversies between the taxpayers and the courts. While it was generally conceded that depreciation deductions should represent a writing off of the cost of a business asset over its economic useful life, a number of questions were not finally determined until they reached the Supreme Court last year, and then were decided by a vote of five to four.

For years, the primary controversies related to the period over which depreciation should be computed. The regulations called this period "useful life," but did not define that term. An examination of the decided cases indicated that the Commissioner's consistent position was that this meant the estimated actual physical life of the property, and that depreciation was to be computed by first deducting from the cost the estimated scrap value at the end of that period, and to spread the balance over such physical life. Frequently, and particularly in the case of buildings with a long estimated physical life, the salvage value was ignored. In other cases (primarily involving personal property such as machinery and automotive equipment), where the taxpayer would show that it was his custom to sell the asset after using it for a time much shorter than its physical life, and would claim the right to depreciate over that shorter period, the Commissioner prevailed upon the courts to hold that the physical life was the test.

In 1942, another consideration entered the picture. Prior to 1942, gains from the sale of this type of property were taxed as ordinary income, rather than capital gain so that the total income after depreciation during the use of the property and that resulting from its sale would be taxed at the same rates (except of course for statutory rate changes from year to year).

In 1942, the law was changed and such gains became taxable only at capital gain rates. It then became doubly important for the taxpayer to fight for high depreciation rates. While the gain on sale of the property would be increased, that gain would be taxed at the lower capital gain rates, whereas the depreciation reduced income taxable at the higher rates. On the other hand, revenue agents, in an effort to reduce capital gains, were prone to use hindsight and fix depreciation rates so that total depreciation deductions during the period between acquisition and sale would leave a book value equal to the sale price. The device used was to build up the estimated salvage value to the amount for which the asset was later sold, thus reducing the basis for computing depreciation. This reversed the long-standing Government concept of "useful life," holding that it meant only the period during which the asset was used in the *taxpayer's* business. While this resulted in a higher *percentage* rate for depreciation, the basis for the computation was so reduced by using the ultimate sale price as the "salvage value," that the dollar amounts deductible were greatly reduced.

This issue slowly wound its way through the courts. Two Circuit Courts of Appeal agreed with the Government[1], and another with the taxpayer.[2] As a result the issue went to the Supreme Court which held for the Government.[3]

1—United States v. Massey Motors (CA 5), 264 F. 2d 552; Hertz Corporation v. United States (CA 3), 268 F. 2d 604.

2—Evans v. Commissioner (CA 9), 264 F. 2d 502.

3—364 U. S. 92, 122.

(Continued page 60, column 2)

President's Page

IT'S BEEN A BUSY YEAR IN THE MORTGAGE INDUSTRY

"THE moving finger writes," went Omar Khayyam's lines, "and having writ, moves on"—an appropriate quotation, I think, for the final observations I will make in these pages as president of your Association. I would not move on, however, until I have expressed my gratitude to the members of MBA for having made available a memorable experience for me. These past twelve months add up to a very busy and a very challenging period, for me and for our industry. It has been a trying period, attempting to keep up with all the events and all the places where opinions and views were to be exchanged and decisions made—and where the counsel of the president of MBA was sought—but it has also been a stimulating and provocative experience, this coming to grips, week in and week out, with developments which have a bearing on, and a meaning for, our growing and expanding field of credit.

Robert Tharpe

To me, these past twelve months have represented another important segment in the growth of mortgage banking. The industry has achieved another good year of growth, it has added another year of stature. It has reflected another year of demonstrating what vital and basic functions our industry performs.

I wish that I might, in these closing remarks from the presidential chair, pay proper tribute to those who have worked side by side with me this year; but ten times the space would not be sufficient for it.

I wish that I might adequately recognize the work of all the nearly 25 committees, each one of which has made a very real and important contribution to the Association and to the industry. It has been inspiring to see how the nearly 300 committee members comprising these groups have attacked their assignments, how sincerely they set out to do their jobs and, what is most important, how well they have succeeded. The tremendous interest MBA members have in their trade association is no where better illustrated than in the work done by our committee members. This is one of my greatest satisfactions during the past year.

Looking back over the past twelve months, many events have left indelible impressions, not the least of which is the tremendous development mortgage banking has had all over the country, so graphically illustrated by the more than 60 local associations nation-wide. I visited about 25 of them during the year as well as dozens of other groups, all of which meant an itinerary of more than 125,000 miles. It took a great amount of time and effort but it was a most rewarding and satisfying endeavor, one I am proud I could make. The increased stature, prestige and importance of mortgage banking is no place more clearly reflected than in the deep interest mortgage men take in their own local groups, every one of which makes a contribution to our national association.

It has also been a busy year for MBA in what is one of its principal activities—providing the medium by which mortgage originators and investors can get together to discuss, and hear discussed, matters of mutual concern. Our Conferences in Chicago, Atlanta and Montreal were well received. Our Servicing Clinic in Seattle had an equally excellent reception. This year we repeated our special meeting for administrators and officers of pension funds to again demonstrate how they can invest in mortgages today as easily as they do in other securities—and with

more profit. It, too, was most rewarding. And this year, for the first time, we offered the National Electronics Convention in Detroit and its success is such that we will experience its benefits for a long time to come. Our School of Mortgage Banking completed its best year with a record attendance. The success of these meetings can all be determined by one measuring stick: did members value them sufficiently to come? The excellent attendance everywhere is the best evidence of the value members attach to our meetings.

It would also be impossible to recount all the work and effort, the time and energy, that have gone into the many other activities which have been my responsibility for the past twelve months. Mostly these have represented innumerable conferences and negotiations with contemporary groups, with government and with our various committees. A few of these should be mentioned briefly.

The 1961 national housing legislation represented a real challenge, encompassing as it does such a radical departure from what all of us have considered sound lending policies and embracing so many special purposes functions. Our industry's views were made known forcefully but only in certain instances were our opinions reflected in the final action.

During the year many steps were taken in accord with Association policy to restore FHA to its original concept and try, as best we could, to halt the drift away from its original format. In this respect, I am sure we have accomplished much; and, further, that some of the efforts not yet completed will bear fruit later.

Similarly, we knew we reflected the membership's combined view when we vigorously opposed placing FHA in a new cabinet department —a move we were convinced would further hamper its already impaired usefulness. The decision here probably will be made next year.

To turn now to a broader picture, the one which mirrors the breadth and scope of our industry, it isn't easy to say just exactly where we started twelve months ago, how far we traveled and where we are now—something as large and as complex as our field, and indeed our own Association, doesn't lend itself to such convenient measurement. It has been my privilege, however, to see MBA and our industry from a close-up vantage point that not all of us are permitted to do. To me, it has been a year of substantial progress. Our industry attains greater stature and influence all the time; and I have been made aware of that fact many, many times during the past year. It's been said that we are a maturing industry—I think we have reached maturity.

The past year has also been one that stimulated thinking by all of us in a way we haven't experienced before. There was never a time when we were confronted with so many new ideas and new proposals. The real estate investment trust, the many, many new ideas in the 1961 housing bill were some; the scrutiny which others have given our field was another. All of these developments reflect the broader horizon of today, the new challenges confronting us and the new opportunities that are ours.

So, again, my thanks to the members of MBA for the privilege of serving them during the past year. To go back to the beginning, the remainder of that verse of Khayyam's goes on to say that no matter how we feel, we can never go back and change what has gone before. If I had to do it all over again I'm not sure what I would go back to change; and that somehow reminds me of that well known verse by Grantland Rice which goes like this:

> "For when the one great Scorer comes
> To mark against your name,
> He writes—not that you won or lost—
> But how you played the game."

PRESIDENT

The House That's

HOME builders and others have been complaining about the sluggishness of the housing market. Maybe the problem is not as much a slow market as it is a failure to build for the market that does exist. The automobile industry discovered its market had changed after it lost sales to foreign manufacturers who did recognize the market for smaller, compact cars. Thirty-five per cent of the automobile market so far this year has been in smaller cars.

A similar story is evolving in housing. The market is changing. Four different types of builders have entered this changing housing market in a big way. First, apartment house builders. According to F. W. Dodge, apartments accounted for 24 per cent of total housing in the first five months of this year. The second competitor of the conventional home builder is the builder of the so-called mobile home, a prefab house that is trucked down the road and set on a permanent foundation. This market accounts for over 7 per cent of all housing. Third is public housing; this may account for roughly 4 per cent of all housing. Add these together: 24 per cent plus 7 per cent plus 4 per cent equals 35 per cent of the business going to these three competitors alone.

But still another competitor is making large strides—the shell house. This industry is putting up 8 to 10 per cent of the total this year. Thirty-five plus 8 to 10 equals 43 to 45 per cent. There is a little duplication in some of these numbers, so let's call the total 40 per cent to be safe. Forty per cent of the market is now lost, at least temporarily, by the conventional home building industry which now must make a living out of 60 per cent of the housing market.

No wonder some conventional builders think the market is sluggish!

Let's take a look at this lost 40 per cent and see why such a big proportion of the market has been lost to conventional builders.

The apartment house market, the 24 per cent, is growing, among other reasons, because it meets three needs particularly well. First, it is relatively easier to locate apartments near centers of employment. Second, families are becoming more mobile and rented units are becoming increasingly important. Third, the change in age distribution means that the major housing markets are those for young and old families. The number of middle aged families is not growing. Whenever a home is sold to a middle aged family today it is sold to a family that abandons an existing house. This family has not been a net addition to the housing market. There will be no increase between 1960 and 1970 in the number of families with heads

s Not Quite a House

It's "habitable but not yet complete," in other words, the shell house which accounts for a greater share of the market than most of us realize.

Just as in every area of life in Twentieth Century America, housing is experiencing deep and far-reaching changes because people's wants and needs are changing. The market for houses—and thus the kind of houses we build—is in revolution and thus considerably different even today than the conception most people have. Last year one of every eight houses was a manufactured or prefab unit. The mobile house—it seems almost yesterday when few took it very seriously—also comes in for a sizable share of "starts." While exact statistics are hard to come by, there may have been as many as 100,000 shell homes built last year. Mortgage bankers, generally, it is safe to say, know comparatively little of this part of the industry, largely because they aren't financing them. Shell housing is low-cost housing, and one way for reaching a goal everyone would like to see achieved. Mostly it's housing in small, even remote, centers. Further, it's housing that so far hasn't touched the areas of activity the mortgage banker knows best. Recently the National Association of Home Builders held a Conference at its National Housing Center on the subject to look at it in depth and come up with the facts about it—and succeeded admirably. Some of what was found is reported here, and on page 45, and gives what for many will be their first comprehensive look at the "Habitable But Not Yet Complete House."

By ROBINSON NEWCOMB
Housing Consultant

aged 30 to 45. The increase in the number of families will be among those with heads under 30 and over 50. These families are more adapted to apartment living than middle aged groups. There are ways by which each of these handicaps can be met by the single family builder but unless and until he does meet them the apartment builder has an advantage. The apartment builder, therefore, may continue to build 20 to 25 per cent of all housing for some time to come. This market may, therefore, be lost to the home builder.

The mobile home builder also provides strong competition—the mobile home is a strong competitor of the conventional builder.

A third competitor, government housing, provides homes for minority groups that cannot otherwise get decent housing. The homes are not as good as can be built nor as good as the minority groups themselves could get by means of shell housing, because government housing tends to be ghetto housing. Since the home building industry has tended to take the position that there is little they can do to help minority groups, government housing is with us and 4 to 5 per cent of the market has been lost to the conventional builder. Shell housing can help recover some of this market.

Shell housing is not a new development. A study by the BLS covering the year 1949 indicated that 27 per cent of all houses built in that year were put up by individuals with varying amounts of sweat equity; some of this was shell housing. Over 20 per cent of today's families have incomes between $3,000 and $5,000 per year. These are not taken care of by federal programs. Less than 12 per cent of the FHA 203 mortgages made in 1959 were to families of this income group. Over 88 per cent were to families with higher incomes. Less than 5 per cent of VA loans on new houses are to such families. So, 20 per cent of the population have had little or no new housing help from the government or from the conventional builder.

The shell house developed to its present position largely because the $3,000 to $5,000 income families refused to accept slums and shacks forever. Not everybody whose income

▸ ▸ ▸ ▸ ▸ *"The shell house developed to its present position largely because the $3,000 to $5,000 income families refused to accept slums and shacks forever. Not everybody whose income is low is without initiative. These families with initiative and a desire for better housing began to build via the sweat equity and shell house route. As long as home builders and mortgagees had all the business they could handle, these families tended to be ignored, despite the fact that they counted for such a high percentage of the potential housing market. Even the Federal government looked after the man with income above $5,000 but has paid relatively little attention to the housing needs of families with incomes of $3,000 to $5,000 a year. The $3,000 to $5,000 family head has been the forgotten man."*

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But now that single family home builders are beginning to have to scratch around, and to work for a living, now that 40 per cent of the market is taken by competitors, and now that mortgagees are finding it somewhat more difficult to place funds at the rates at which they would like to become accustomed, the $3,000 to $5,000 family is being rediscovered. The competition of shell home builders may have finally awakened the industry to the potential of this lower income market.

It is a big market. The census bureau has been reviewing its field work on its reporting of housing starts in non-permit areas. One of its technicians said that in the area which he had visited most recently half of the housing was being put up by shell builders who are not even on the list of shell house builders. Small local operators had found low-income families trying to put up houses themselves. They had recognized the potential of the market which many bigger operators have not recognized and they have begun to meet this market.

The financing costs of such housing are tremendous. If the shell house buyer pays 12 per cent interest on his loan—and this may be a below average figure—and if he borrows for a six year period his average interest payments are 6 per cent per year and his total payments are roughly 22 per cent per year on the original debt. If you can cut the interest to 8 per cent and make the note run for fifteen years the annual payments would average about 11 per cent of the original debt. A standard 6 per cent, twenty-five year mortgage would cost about 7 per cent of the original debt each year. The shell house buyer pays about three times as much per year for his money as a conventional mortgage would require. The family who could borrow $3,500 on the six year, 12 per cent interest basis could borrow $7,000 on the fifteen year 8 per cent basis and about $11,000 on the twenty-five year 6 per cent basis. This means that if he could get his money on conventional terms he might be able to buy a house nearly three times as big. By demonstrating that he could meet a six year amortization at 12 per cent interest, the shell house buyer has proven that he could pay for a $7,000 or a $10,000 house. The market has been here but the financing has not been available.

The FHA has been willing to move into the shell house business for years. When I was doing some research on this subject in 1956, the FHA made it clear that if good plans, and good construction loan operations, and completion bonds were available they would insure shell homes. The failure of the home building industry to move into this market should not be laid at the doors of FHA. The failure has been due to relatively easy markets elsewhere which have reduced pressures on home builders to move into this field. With the FHA ready to help, savings and loans and mutual savings banks also may be ready to act and they can make a good profit. The present eight to ten per cent of the market taken by shell homes with adequate financing could become 15 per cent or more of the market.

It may be a five billion dollar a year business.

This will be big enough to attract conventional mortgages. If the home builders move into this field, they may be able to recoup a good proportion of the 40 per cent of the market they have lost. They may be able to push their proportion of the market up from 60 per cent to possibly 70 per cent, an increase of a sixth. With a rising housing market and home builders getting a rising proportion of the market, efficient, active home builders can have an expanding market. They can cease to bemoan the sluggishness of the market for which they used to build, as they discover the new markets they had previously ignored.

How Builders, Lenders and FHA Appraise the Industry's Prospects and Possibilities

JUST what is a shell house? How many are being built? Who buys them? Who finances them—and on what terms.

The Conference went looking for the answers and the result was a mass of information about this little known —to mortgage bankers anyway—area of building.

The shell house, typically, is a one to three bedroom, basement-less structure, usually sold without land, utilities or finishing materials in a price range of $1,800 to $3,500. When finished by the occupants, through "sweat equity" or contract, these houses represent values of roughly $4,000 to $8,000. A few firms offer shells with four bedrooms at a basic cost of as much as $8,500, with the finished value running to $15,000 or more. The houses are offered in various stages of completion; some communities require that plumbing and electric wiring be installed, inspected and approved before the house can be occupied.

In the basic shell house, the buyer is provided with the basic shell, erected on the site, painted on the outside; flooring is installed but not finished; studs for interior partitions are put in place; procurement and installation of utilities, interior finish materials and equipment are the responsibility of the buyer. Some shell house producers make available a complete package of finishing materials to be used at the buyer's option. Most firms have their actual construction work done locally on a contract basis, with materials specified.

Reliable statistics on the shell house industry are far from complete, but all available data indicate that something in the neighborhood of 100,000 shell homes were sold during 1960 and the market appears to be expanding. The bulk of this housing goes into rural, non-farm areas which in the past have been considered too remote to attract the urban-centered home builder. For reasons of climate and more liberal building code requirements, this business has developed most rapidly in the South, although shell house companies are not confined to that section and there is evidence of considerable activity in Northern states such as Pennsylvania, New York, Massachusetts, Ohio, Illinois and Indiana.

The primary market for shell housing is in the low-income group, including a substantial proportion of minority families, who are willing to invest some of their own labor to obtain satisfactory housing fitted to their means. Other prospects include families with men who possess some building skill, those who want vacation cottages, and a sizable number who are attracted to shell housing as retirement homes which can be finished over a period of years.

With few exceptions, shell house financing is done on a short-term consumer credit basis, rather than on the

▶ *Dr. Robert Weaver, HHFA Administrator, said the Government views the shell house as a vital segment of the housing market because of its size and its rate of growth. He said his agency has a great concern about this area, in view of its responsibility to the public, and that it is looking to the industry for assistance and guidance in shaping government policy on shell house financing.*

long-term, amortized mortgage system familiar to most home builders and home buyers. Typically, a shell house may be offered on a no-money-down basis if the buyer owns a lot valued at 5 per cent or more of the purchase price. Financing generally runs for five to seven years, with effective interest costs of 12 to 15 per cent, although these charges vary considerably from company to company and from area to area.

At the conference, a spokesman for one of the largest shell house producers questioned whether home builders could operate successfully in this area without very substantial financial backing. He noted that delinquency rates on shell housing are higher than those experienced by mortgage lenders—his experience was a 5 to 7 per cent over-60-days delinquency—and he expressed the opinion that short-term, high-interest consumer credit is the best financing medium presently available for this market. His firm requires a small down payment in cash, because lot values in rural areas generally are not sufficient and because even a small down payment gives the buyer an incentive to meet his monthly payments and to do some finishing work on the house. He estimated that half of his buyers complete some finishing work on their homes within the first year, but emphasized that the extent of this finishing depends upon the amount of materials sold to the buyer at the outset. Most of his company's sales include plumbing, wiring and wall board, but in general the buyers forego costly heating systems and simply install oil-burning space heaters. The shell house representatives agreed that the overall quality of finishing work by the buyers is fairly good, but they acknowledged that some of this do-it-yourself workmanship is amateurish and of poor caliber. They felt that the character and living habits of the buyers usually dictate the degree to which shell homes are finished: in some instances, occupants content themselves with driving nails into the studs to support indoor clotheslines or to serve as hangers.

Marketing practices of the established shell house companies also differ radically from those of the home building industry. Customary procedure is to open one or more sample houses along the roadside on the outskirts of a town or city to attract the attention of prospects from the rural areas. But model house salesmanship is not enough, according to one shell spokesman: "You have to beat the bushes with a well-trained specialty sales force."

Collecting the monthly payments after the shell house is sold was another problem cited by the same shell company official; one in four buyers requires special prodding either in the form of personal visits by a company collector of by telephone to make his monthly payment.

Other shell house spokesmen contend that there is no basic difference between their business and the standard home builder's operation, since both are concerned basically with providing shelter. They said they are forced to deal in high interest rates because they operate in remote areas on a low-cost basis and conventional mortgage lenders have not found this type of loan attractive.

"We can't choose where to build," said one. "We have to put the house on any suitable location where the customer is, if we want to build low-cost homes." He urged builders to look on the shell house as a step toward meeting the needs of low-income families and to cooperate in seeking solutions which "will benefit all of us." Emphasizing the size of this market, he said that his firm in the first five months of 1961 closed more than

2,300 contracts for shell houses at prices ranging from $2,400 to $7,200, with an average interest rate of 9.8 per cent.

Homebuilders heard that their industry has by-passed completely a big and growing market for housing along the many hundreds of well-traveled roads that run through the rural areas of America. A shell producer credited the growth of his market to two basic factors: the willingness of his firm to go out into remote areas after the business, and public demand for bigger homes. He contended that semi-finished homes offer one-third more space for the dollar than do completely finished houses. Most families ,he said, would prefer more space and less finishing for their money.

▶ *Financing is expensive:* The shell house spokesmen acknowledged that financing costs for their customers are far higher than those paid by completed house buyers, but insisted that they had no alternative but to use consumer-type financing.

"When you are trying to house poor folks," commented one producer, "you have to pay what the money market demands."

Some of the shell representatives said they would welcome lower cost conventional and government-insured mortgage financing in their business. Others said they would prefer to continue operating on short-term, high-interest credit.

A suggestion that manufacturers of building materials cooperate in the research of materials and financing for low cost housing was advanced by a representative of the Institute for Essential Housing, which designs shell homes. The Institute already has undertaken some research along this line with a number of manufacturers and it was felt that substantial progress toward lowering house costs might be made if the entire building materials industry could be brought into the program.

▶ *What government thinks:* Dr. Robert Weaver, HHFA Administrator, said the Government views the shell house as a vital segment of the housing market because of its size and its rate of growth. He said his agency has a great concern about this area, in view of its responsibility to the public, and that it is looking to the industry for assistance and guidance in shaping

▶ ***FHA Commissioner Neal J. Hardy said: "The time is long past for us to continue discussion of technical detail. In this kind of housing, we are not concerned with provision of sidewalks, curbs and the like. If it works, we will go ahead. . . . Our concern is for the provision of a good, livable house. It doesn't matter whether it is sold as a completed house or a shell. But it must become complete."***

government policy on shell house financing.

FHA Commissioner Neal J. Hardy also expressed major concern over this market area and agreed that there is need for a very substantial production of new homes which adequately meet minimal standards and can be sold to low-income families. He noted that the rural, non-farm areas largely served at present by shell house builders has been a "no-man's land" so far as the FHA program is concerned, and that FHA has been charged by President Kennedy with responsibility for getting something done for these people.

Hardy said that FHA is willing to experiment in this market by assigning small groups of technicians to work with the home building industry on specific low-cost shell house projects throughout the country. The objective would be to determine whether there is a practicable basis for FHA participation. Results of this experiment could be reviewed and analyzed at a subsequent Conference.

"The time is long past for us to continue discussion of technical detail," he said. "In this kind of housing, we are not concerned with provision of sidewalks, curbs and the like. If it works, we will go ahead. . . . Our concern is for the provision of a good, livable house. It doesn't matter whether it is sold as a completed house or a shell. But it must become complete."

The Commissioner suggested that FHA might evaluate a shell house for mortgage insurance purposes in terms of its condition when completely finished, and that an arrangement might be made under which part of the builder's money would be placed in escrow to be disbursed only after final FHA inspection and approval of the completed house.

▶ *The lender viewpoint:* No representative of consumer-type lenders currently engaged in financing shell housing participated in the Conference, but spokesmen for savings banks, commercial banks and savings and loan associations attended. All the banking representatives were critical of shell house financing methods but expressed interest in finding ways of participating in this market on a more conventional mortgage basis.

The savings and loan group said they are studying the shell house program and are willing to help establish a sound financing system, because they recognize that this is a large and growing market area. But they emphasized that the extent of participation by savings and loan investors will depend upon the extent to which interest rates can be lowered. They pointed out that usury laws in a number of states set the legal maximum interest rate at 6 per cent and that in others the Federal Home Loan Bank Board has set an 8 per cent ceiling, including the so-called "add-on" charges. They said the problem is further complicated by the fact that shell housing involves repossessions, servicing of loans in remote areas, which add to the financing cost.

They said that the experience of savings and loan associations generally has been with livable houses, rather than with shells, and with lumber dealers who follow up the initial sales to make sure that improvements are made and that the houses are finished.

They also noted that the shell house producers participating in the Conference were not agreed on the desirability of long-term mortgage financing, and that some apparently would prefer to continue operating on profitable, short-term consumer credit.

"We are dissatisfied with high cost financing for low cost housing," one savings and loan spokesman said. "If you want truly low cost housing you need long-term financing. This entire operation (shell house building) has been oriented toward consumer financing."

As an experiment, this group suggested that a home builder might set up a small line of credit, perhaps $250,000, and work out a test program for shell housing within a 50-mile radius of his home city.

A similar proposal was advanced by the savings and commercial bank participants. They felt that banks might select certain builders in whom they have confidence and extend them a moderate line of credit for construction money and permanent mortgage financing. But they emphasized that any such experimental credits should be made on a step-by-step basis and that there should be no large-scale advance commitments. They said bankers generally have little or no experience with this program and the shell house financing methods seem "primi-

tive and overly expensive." It was felt that commercial and savings banks could do the job far more economically and would be interested in doing so, provided they were convinced it was in the public interest and that the loss rate was sufficiently low. In any event, they said the banks handling shell financing would need larger reserves than they require for regular home mortgage lending and that they would not want to service these loans because of the remoteness of the areas in which they are placed.

Commenting on the large discounts at which shell house loans often are sold, a banker spokesman questioned the economic soundness of the program as presently operated. "If we assume a risk of 20 to 30 per cent," he asked, "are we really financing housing for the American people? Are these people (shell house buyers) able to maintain their own economic stability, or, if the head of the family loses his job, do they simply pack up and move to another area? Are they too mobile? Maybe we are trying to do more than can be done."

In sum, however, the lending groups felt that the job of financing shell housing could be handled on a long-term, low-interest basis, through conventional lending channels, provided the program is studied sufficiently and an intelligent system of credit analysis is developed.

▶ *What builders think:* Like the lending groups, the builder participants were highly skeptical of the desirability or feasibility of their entering the shell house program with the existing methods of financing these homes. But they made it clear that they recognize the market potential and are looking for ways to adapt the shell house to their own marketing, construction and financing practices. Fundamentally, they saw the shell house as an extension of their own long-time efforts in the low-cost housing field.

They agreed that the current volume of finished housing which their industry is building is not nearly sufficient to meet the country's needs and that a great deal more low-cost construction is required. They told the Conference that NAHB is developing detailed information on low-cost housing subdivisions in 31 areas throughout the United States and that a booklet containing demonstration plans and other data on this type of housing will be published shortly for the guidance of the industry.

The builders also appeared confident that government participation in the form of mortgage insurance will be forthcoming to help them develop homes that will meet minimal construction standards at a price within reach of low-income families. But they urged strongly that the governmental housing agencies make an increased effort to reduce the time required for processing loan applications in this field.

A Texas builder with a long background of residential construction said his firm entered the shell house field late in 1960 as a diversification move which would broaden its market without greatly increasing its risk capital. He said the company offered three models in varying stages of completion, to be built on the owner's lot within 75 miles of San Antonio at prices ranging from $2,700 to $8,200. The basic shell house, which requires a certain amount of finishing to be made livable, is financed on a 7 to 8 year term with a discount rate of 6 per cent or 7 per cent. The finished house, and the livable but only partly finished house, are financed on 15-year mortgages with a simple interest rate. The owner's lot usually is considered adequate as a down payment.

This builder said his market for shell homes generally has consisted of the following groups:

1—Families interested in an $8,000 house who have been unable to qualify for government-insured mortgage loans.

2—Families looking for second homes, vacation retreats, etc. This is a small but very demanding market.

3—People buying homes for farm and ranch employees, usually for cash.

4—Families looking for larger and more expensive homes to be built on farms and ranches and completed by the owners.

5—Families in the very low income group who are in need of basic shelter. This group, including a large percentage of Latin-Americans, was regarded by the builder as his biggest potential market. He said the majority have good credit ratings, do not tend to overextend themselves to the extent that higher-income families do, and find more security in their homes than do other groups.

The Texas builder said the greatest need in the shell house field is a less expensive method of financing. He said home builders can successfully integrate this kind of business into their present operations with a minimum of working capital, particularly if they build partly-finished, livable

(Continued on page 58, column 1)

IT'S TIME TO F

THE hazards to which our private mortgage credit system are exposed are not easily described. There is no overt attack upon it. On the contrary, every one claims to support it and wishes to enhance it. The forces that are undermining it are not intended to be such, but they are perhaps the more effective because of this very reason. Since we don't recognize what is going on, it can go on without hindrance.

There are two areas in which I see the private mortgage credit system being subtly undermined. The first is in the area of government policy; the second is within the mortgage lending industry itself.

In the first instance, there is an unmistakable drift away from dependence on, and confidence in, the private market as the means through which the constant improvement in housing conditions can take place. Instead, we have a startling increase in direct governmental lending operations. We have a shift in FHA attention from the original, basically market-oriented program to a mounting number of special-purpose operations nearly all of which depend for their success upon FNMA support. In the same direction, we find the FNMA special assistance activity looming larger than its secondary market program and, in its latest development, financing FHA mortgages at a lower rate than the Treasury itself could obtain for long-term financing —a clear subterfuge for direct lending.

This is the changing environment in which the private mortgage credit system is operating. The drift is clear. We even find the Treasury suggesting, in its report on the taxation of savings institutions, that greater dependence on FNMA special assistance may be the preferable method of reaching "the goal of a high level of housing construction."

These actions and these attitudes should be of deep concern not only to those who are engaged in private mortgage lending but also to everyone who believes in a market economy. For if market principles are abandoned here, in what is one of the largest areas of private enterprise activity and *is* the largest area of private investment, I do not know where a stand is to be made. This may be our Berlin.

What is of even greater concern is that, notwithstanding this trend, we have an industry that is so blinded by its own divisions and dissensions that it is kept from effective counteraction and is even distracted from the threats that confront it.

Our private mortgage credit system is an unusual affair. It is not a system at all in any strict sense. It is rather a complex of services, operations, and institutions that have grown up over time as particular market needs have asserted themselves. It comprises commercial banking, savings banking, mortgage banking, savings and loan activity, and the investing activities of life insurance companies, pension funds, and others.

Because of its variety, our mortgage credit system offers the public a range of choice and a scope of service that probably could not be matched in a consciously pre-ordained system. Over the period since World War II, this complex of institutions has put a total amount, less repayments, of $137 billion into non-farm residential mortgages, has financed the production of over 16 million new family units, and has raised the ratio of home ownership from 51 per cent to 62 per cent of all occupied nonfarm dwellings.

The system—if we may call it that —is vigorously competitive, and, at the same time, highly interdependent. The fact of competition requires no elaboration. It is there for all to see. It has been largely responsible for the beneficial results I have mentioned. It is also, unfortunately, responsible for a great deal of mutual suspicion, acrimony, and bitterness, as events of the past few months have well enough demonstrated. As a consequence, the competitive aspect of the system—and especially the effort to obtain a competitive advantage by resort to governmental intervention—too frequently causes us to forget the aspect of interdependence. Yet the fact is, each of the major elements of this system has need for, or makes use of, or profits from the others.

My interest is in stressing the sense and in broadening the fact of interdependence. I would do this as a way to strengthen the system as a whole, to widen its services to the public, and to combat the broadening intrusion of government. And I would do this without in any way diminishing its competitive character.

As a mortgage banker, I may be more acutely aware of the two great features of our system — competition and interdependence—than members of its other branches. Mortgage bankers are faced with this every day. They are in constant competition in their own localities with commercial banks, savings and loan associations, and, of course, other mortgage bankers. In many areas they are also in direct competition with savings banks for as large as possible a share of the mortgage business in their localities.

At the same time, mortgage bankers are dependent on life insurance

O REASON TOGETHER

By CARTON S. STALLARD
MBA Vice President

This year can already be marked down as one of deep and intense conflict among some of the many segments which make up the vast field of mortgage investment.

An excellent case can be made for some sincere, old-fashioned cooperation and that is what Vice President Stallard asked for before a joint meeting of the New Jersey Bankers Association and the New Jersey MBA. The wisdom and the merit of the way he proposes has meaning for all segments interested in the preservation of private enterprise in mortgage financing.

companies, mutual savings banks, and other institutional investors for the funds they dispense; and they are the main channels through which these institutions invest funds beyond the borders of their own states. In some instances they provide and service loans for commercial banks and savings and loan associations. They are dependent on commercial banks for large volumes of credit for construction loans and other interim purposes, and for warehousing completed but unplaced mortgages; and, through these operations, as well as through escrows and other deposits, they furnish commercial bankers with a substantial and profitable business.

To greater or less degree, similar relationships prevail throughout the system. Savings and loan associations use commercial banks in addition to, and sometimes in preference to, the Federal Home Loan Banks for credit to assure liquidity or permit expansion, and, in turn, their heavy deposits swell the business of the banks. Life insurance companies and mutual savings banks have been known to resort to commercial banks to prevent a liquidity squeeze or to tide over an over-committed mortgage position. In spite of the rough competition between them, savings and loan associations and mutual savings banks have found a common interest in their corporate tax arrangements and have even made a united cause with commercial banks and life insurance companies on the issue of tax withholding.

So, in one way or another, we are all bound together; and, although we may not always see it clearly, we have a common objective. What is it we want? That's easy — we want more business. We need to seek this greater volume of business, however, by seeking the means for expanding the total market rather than by only narrowly looking for ways to take business from one another.

We can well afford to take such a broad view. We are not faced with a limited potential. We are not working in a closely circumscribed market. We have heard too much about the supposed saturation of housing demand. If this is true at all it is true only for a moment of time. In the years ahead we shall have demands far exceeding anything we have known in the past. We are already on the threshold of a new increase in shelter requirements.

Last January House & Home published some estimates of the future that are worth a second look. Without going into detail, House & Home demonstrated the need for nearly 70 per cent more net mortgage investment per year on the average during the present decade than during the 1950s (which was anything but a dull period). In addition to this we shall have to find new capital at about $16,000 a head to employ an estimated 13.4 million increase in the labor force during the 1960s. If we fail in providing this investment for housing and capital equipment we shall fail in maintaining the steady improvement we seek in our standards of living.

The extent of these requirements should indicate that there can be plenty of business for every kind of investment medium. The problem is plainly not of a struggle for a larger share of a limited volume. It is a problem of how to enlarge the resources needed to cope with a greatly expanded volume. The problem of the decade, therefore, gets down to this:

- How can we make sure of a volume of savings sufficient to meet the various and growing demands for investment funds?

- How can we also make sure that the savings will have a broad and equitable distribution among all economic groups and geographic areas?

The solution of this problem will take a strenuous cooperative as well as a competitive effort. Since the competitive effort I am confident will take care of itself, it is the cooperative effort that we need to think most about. What direction should our thinking take? Here are some of my suggestions.

- Our combined strength should be centered on preventing inflation. There

can be no question about this. A renewal of inflation would defeat the whole objective. It will accelerate the rise in building costs. It will discourage the flow of funds into our savings institutions. It will deter our investment media from fixed-dollar obligations. Consequently we should be actively concerned with the development and enforcement of sound fiscal and monetary policies.

▶ Our tax policy should be designed to encourage savings, especially institutional savings. To this end, I see no reason why earnings on time and savings deposits of commercial banks should not be treated in precisely the same way as earnings of mutual savings banks and savings and loan associations. In recent discussions of this subject, it seems to me that the main objective—the vital need to expand the whole savings structure—has been largely lost amid competitive considerations.

The problem of competition, it seems to me, should be approached on the basis of equal treatment for similar functions. For example, income from the origination and servicing of mortgages for others should certainly be treated as ordinary business income whether the function is performed by a mortgage company, a savings and loan association or a commercial bank. But this is aside from the basic issue: the need for an increased volume of savings and an increased flow of savings into mortgages.

I may say, further, that the Mortgage Bankers Association is not committed to the support of any specific tax arrangement or tax proposal. It is committed to the objective of maintaining and expanding the supply of mortgage credit, and it consequently must be disturbed at any proposal that might threaten that supply. That is the only reason that it would argue for letting present arrangements stand until assurances can be obtained of equal credit supply by other means.

▶ Consideration should be given to the relaxation of the limits on the interest paid on savings accounts and to the broadening of the geographic area in which mortgage lending may be done, provided, of course, that adequate servicing can be assured.

▶ Numerous questions about our institutional framework need to be considered from the point of view of strengthening the private mortgage credit system. What about a system of federally chartered mutual savings banks? This issue probably will be before Congress next year. What about special types of secondary mortgage market instrumentalities such as have been proposed by ABA and the U.S. Savings and Loan League? What about the future roles of FHA and FNMA in relation to the private home mortgage system?

Several current studies bear on these matters. The report of the CED-sponsored Commission on Money and Credit touches on them at several points. The University of California at Los Angeles will soon publish a study of primary and secondary mortgage market problems. ABA's Committee on Mortgage Finance has, on its own part, been studying methods for facilitating conventional mortgage lending, and has taken the forward step of presenting its proposals to representatives of the other mortgage lending institutional groups. We are fortunate in having these studies available and should promptly and seriously give our attention to them.

At this critical time, we may do well to follow the advice of the Prophet, "Come now, and let us reason together." It is only by reasoning together that we can thoroughly take stock of the problems of our industry as a whole and of the needs of the mortgage market as a whole, and, from this, determine what we need to do to keep our mortgage credit system strong and to make it stronger. If we do this, we shall certainly find that our differences are much outweighed by our common interests. We shall find also that reasoning together will lead to working together toward the common objective of a broader, better serviced market. On the other hand, if we do not recognize these common interests, if we fall into unreconcilable divisions, and if we fail to meet the demands that the future has in store for us, then, just as surely, we shall find government filling the voids we leave and encroaching beyond them.

THE ISSUES WE FACE

(From page 25)

operate — freedom of decision and freedom from arbitrary price control.

These "musts" will not be easy to achieve. On the contrary, they will be most difficult to achieve at a time when the main trend in government is toward the centralization of authority, the control over what is called "resource allocation," and the governmental establishment of "social priorities." This trend is distinctly anti-market. And when a Secretary of the Treasury can say—as he did in his recent tax recommendations—that the use of direct Treasury funds for mortgage finance may be preferable to a favorable tax treatment for savings institutions, it is plain how far this trend has gone.

The task before us is one that requires the utmost in unity—unity in conviction, unity in policy, and unity in action—among the institutions on which the collection and distribution of savings so largely depends. The achievement of this unity may, unfortunately, be one of the most difficult parts of the job. I hope not, but, however difficult it may be, we cannot shirk it. We shall have to put aside institutional jealousies and suspicions. We shall have to forego turning to government for the accomplishment of a competitive advantage.

We are—and we have to recognize it—in a very tough situation. Its resolution will take our best thought and our full energy. We cannot afford to waste either thought or effort on anything less than the fundamental issues. We are capable of doing this if we will wholeheartedly dedicate ouselves to it.

"Urban renewal," said U. S. Savings and Loan League President C. Elwood Knapp, "constitutes not only a tremendous untapped source for home loans, but also provides a great public service for the people of America. In the 1940's, the emphasis was on housing for defense workers; in the 50's, for returning veterans and newly-formed families; in the 60's, there will be increased emphasis on homes and apartments for the retired, as well as nursing homes."

Harold Hurtt New President of Wichita MBA

Harold L. Hurtt, Jr., vice president, The Wichita Mortgage Company, Inc., was elected president of the Wichita MBA. Harold H. Bowman, vice president and treasurer, Fidelity Investment Company, was elected vice president and William Malone, vice president, Fidelity Title Company Inc. was elected secretary. Left to right, Messers. Hurtt, Bowman and Malone at their installation.

Tells Hawaii MBA We Need Uniform Loan Code

A uniform mortgage code would be highly desirable in the United States, L. Douglas Meredith, executive vice president of National Life Insurance Company, Montpelier, Vt., told Hawaii MBA members in Honolulu. He also declared that this necessity of simplifying the legal techniques of mortgage lending and a greater uniformity of mortgage laws in the various states is becoming apparent.

"Changes in our methods of modern life occur so rapidly that it becomes exceedingly difficult for many people to comprehend their scope and impact. In less than four years, passenger-transportation time across the continent by plane has been cut in half with jet travel now commonplace. Engineers tell us that even more rapid strides will be made in increased speed of transportation during the decade of the '60s and that by 1970 we should be crossing the continent in approximately one hour.

"The population of the United States is increasing very rapidly and, according to projections will approximately double by the year 2000.

"The mortgage business must adapt itself to an even greater degree than has been the case to date to these rapidly changing conditions. Significant progress has been made during the past generation through adoption of the monthly payment loan with deposit of taxes and insurance premiums. This has converted home mortgage lending into a phase of consumer financing and if servicing methods are used in the mortgage business, similar to those used in consumer financing, an equally favorable payment record can be expected.

"Adoption of the fully amortized loan has greatly increased the liquidity of a mortgage loan account because each month the steady flow of cash resulting from regular prepayments flows into the investor for reinvestment or other appropriate use. This is a result vastly different from that which ensued 25 or 30 years ago, prior to the widespread use of the fully amortized loan.

"Further progress in the field of mortgage lending urgently needs to be made and fields inviting such progress are those such as servicing and the improvement in mortgage legal techniques. In an age when a nation can be traversed in a few hours, the need becomes increasingly apparent for a simplification of the legal techniques of mortgage lending and a greater uniformity of mortgage laws in the various states, even to the extent of a uniform mortgage code."

Chicago MBA Sets Up Mortgage Institute

Chicago MBA has established the Mortgage Banking Institute and this Fall, for the first time, employees of mortgage firms, builders, real estate companies and others are being offered a full educational course in the field of mortgage practice. This is the first venture of its kind and the first in the field of specialized education in mortgage banking on a local level. It follows the Association's own School of Mortgage Banking during the past three years. To form the Institute, Chicago MBA merged its school into the Central YMCA Junior College, a fully accredited institution.

At the opening of the Institute this fall, two two-hour courses, "Principles of Mortgage Banking," with John R. Womer, vice president, Great Lakes Mortgage Corporation and past president of Chicago MBA, as instructor and "Insurance for the Mortgage Banker," with John M. Costello, vice president, Percy Wilson Mortgage and Finance Corporation, as instructor.

In the Spring semester next year "Mortgage Loan Servicing" will be given, as well as "FHA-VA Processing, Loan Closing and Construction Payouts," each two-hour courses. In the Fall semester, "Customer Relations and Real Estate Taxes" will be added and in the Spring of 1963 "Appraisal of Special Purposes Buildings" and "Mortgage Office Administration" will be included.

The Institute is a development of the Association's Educational Committee of which Merrill Bonnevier, is chairman and includes William I. DeHuszar, who originally organized and then conducted CMBA's School of Mortgage Banking, in cooperation with Donald A. Canar, Dean of the Central YMCA Junior College.

We Showed Them How They Can Invest in MORTGAGES as Easily as in Any Other Medium

Some notes about MBA's second Mortgage Seminar for Trusteed Funds in Chicago this year, a selling effort for the Association and the mortgage industry.

THE facts about that vast field of capital accumulation, the pension funds, as they relate to the mortgage industry, can be summed up this way: the funds are buying more and more mortgage loans but, as of now, those they hold in their portfolios isn't a large volume. But the funds are continuing their sensational growth, they need to work every avenue for sound and profitable investment; and the long years of directing their attention to the mortgage field is paying off. Few funds today are now brushing aside the idea of mortgages as most did not too many years ago. They're interested, they're taking their time to go into mortgages thoroughly.

This year, for the second time, MBA sponsored its Mortgage Seminar for Trusteed Funds. Last year it was New York, this year Chicago. One hundred were there; and as an indication of the type of fund represented, note the captions on the opposite page.

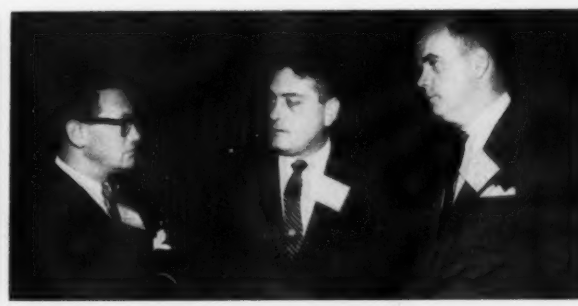
Thomas E. McDonald of T. J. Bettes Company, Houston, again conducted. Ross Fox of the same firm explained how simply funds can acquire mortgages today — a plan is ready and waiting for them, it's successful and has proved its merit. W. W. Dwire of Citizens Mortgage Corporation, Detroit, told of the contractual relationship between the fund's trustee and the mortgage banker and A. A. Johnson of Colonial Mortgage Service Company, Upper Darby, Pa., explained how the records are kept—what was once a prime stumbling block isn't now, and Johnson showed them why. Roger W. Hatch of Walker & Dunlop, Inc., Washington, D. C., went through the safety record of mortgages, an impressive story to relate. James E. Gorman of the Chase Manhattan Bank, New York, and Joe Engleman of Mutual Life Insurance Company of New York, who have had a world of experience in mortgages, told them the investor's viewpoint.

Thus, for the second time, MBA went to work on an educational venture of the highest practical value for the mortgage industry. Every area of investment in mortgages by pension funds has been developed, tested and found sound and successful; it's now a matter of showing the funds how easily it all is for them; how the roadblocks of the past have been removed; and, most importantly, how profitable mortgage investment can be when they deal with mortgage bankers.

▶▶▶ The type of pension fund official who heard The Mortgage Loan Story: William J. O'Malley, chairman, Employees Retirement System of Milwaukee; Rudolph J. Cherney, president, Policemen's Annuity & Benefit Fund, Milwaukee; Arthur Bendlin, president, Firemen's Annuity & Benefit Fund, Milwaukee; Milton McGuire, deputy city treasurer, Policemen's Annuity & Benefit Fund, Milwaukee; Bernard B. Kroenke, member of the board, Employees Retirement System of Milwaukee.

▶▶ Others, above: John E. Kalupa, member of the board, Employees Retirement System of Milwaukee; Frederick A. Wagner, treasurer, National Gypsum Company, Buffalo; Charles G. Gumm, member of the board, and Alfred C. Hass, vice chairman of the board, Employees Retirement System of Milwaukee.

▶▶ Still others who came to hear: H. B. Shepherd, assistant executive secretary, Public Employees Retirement Fund, Indianapolis; John A. McPike, Swift & Company, Chicago; J. Gourlay, treasurer and custodian of pension funds, Denver Public School Employees Pension & Benefit Association.



▶▶ Some came from Canada: John Seltzer, manager, pension trust division, The Canada Trust Company, Toronto, Canada; Ross Fox, vice president, T. J. Bettes Company, Houston, a principal speaker; Arthur H. Mingay, assistant general manager, The Huron & Erie Mortgage Corporation, Toronto, Canada.

▶▶ Some of those on the selling side were: MBA President Robert Tharpe, Atlanta, speaking at luncheon. Others at table, left to right: H. Bruce Thompson, chairman of the board, Colonial Mortgage Service Company, Upper Darby, Pa.; George H. Dovenmuehle, chairman of the board, Dovenmuehle, Inc., Chicago; Thomas E. McDonald, vice president, T. J. Bettes Company, Houston; Frank J. McCabe, Jr., MBA executive vice president, Chicago; Joseph L. Engleman, director of special projects, Mutual Life Insurance Company of New York.

▶▶ Others there, above: Joseph L. Engleman; James E. Gorman, assistant treasurer, the Chase Manhattan Bank, New York; MBA President Tharpe; Lindell Peterson, president, Chicago Mortgage Investment Company, Chicago.

Electronics in Mortgages

It was another notable first for MBA, the National Electronics Convention it sponsored in Detroit in September, the first time "everything in electronics" pertaining to mortgage servicing was brought together in one place to see, study and analyze. A somewhat similar meeting was sponsored several years ago in New York but this was the first time anywhere a mortgage originator and servicer could see the means available to him for getting fully into the electronic age. More than 600 were on hand for this four-day combination convention and exhibit with demonstrations of just how far the magic of electronics has penetrated the mortgage business and the speed, efficiency and economy which it has created.

No previous MBA meeting has any resemblance to it. There was no "program" as most people think of a program; instead, it was four days of seeing the creations of electronics for the mortgage industry, what each one can do, and what each one means to a field of credit consuming more new capital than any other. There were sections for "Current Users" of electronic equipment and another for "Prospective Users." The actual machines and equipment were on display and the manufacturers of some participated on the "program" itself—machines as well as personnel.

The National Electronics Convention brought out many facts about the future of mortgage origination and investment in bold relief, not the least impressive of which was the definite conclusion which almost anyone who was there would fully share: namely, that what MBA collected in one place to see and study represented the wave of the future as far as servicing is concerned. What the Detroit Conventioneers saw collectively *was* the way servicing is going to be done in the years ahead, it *was* the way to achieve maximum efficiency and cost reduction.

W. W. Dwire of Citizens Mortgage Corporation, Detroit, and Edward J. DeYoung of the First Federal Savings and Loan Association, Detroit, were the committee co-chairmen principally responsible for the planning and execution of the Detroit Convention with James G. Wasson and Robert J. Murphy, of MBA's Mortgage Servicing Division, assisting.

▶ ▶ ▶ *Some guest "speakers" at the National Electronics Convention were the four principal manufacturers of business machines used in the mortgage industry, National Cash Register, IBM, Burroughs and Remington-Rand. Just about every mortgage originator these days has and uses some of the equipment manufactured by one of these four. Here, left, National Cash occupies the rostrum at one of the sessions and, right, IBM has the floor.*

▶ ▶ ▶ *At another session Remington Rand Univac is the "speaker" at a session and, right, Burroughs conducts one. Below, left, Joe Engleman, director of special projects for Mutual Life Insurance Company of New York and chairman of this year's MBA Mortgage Servicing Committee, confers with James C. Smith, Jr., assistant general manager of Chrysler's Missile Division (left). Mr. Smith told delegates of the sensational developments in U. S. missiles. Lower right, some questions are asked and the answers are forthcoming.*


MBA Correspondence Course Passes 500

MBA's first correspondence course on "Processing the Loan" has reached the 500 mark with Page Schreiber of the Midwest Mortgage Company in Miami, the 500th student to receive the certificate.

Of the 733 students registered to date, a total of 502 have now completed the program, with most of the remaining still in the process of finishing the required home-study assignments.

Page Schreiber

Designed to give employees an understanding of the basic rudiments of processing, the course deals specifically with responsibilities of taking a loan application up to preparation for loan closing. Topics include such things as introduction to loan processing and the general approach to the loan transaction, the loan application and supporting documents, processing FHA and VA loans, processing a conventional loan on one-to-four family residences, and a glossary of terms.

Each registrant receives the instruction manual, along with a series of lesson assignments and full instructions. The Certificate is awarded upon satisfactory completion of these assignments. Total fee is $35 per student and registrations may be addressed directly to Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

THE SHELL HOUSE

(from page 49)

homes, rather than the basic shell. His own company, he said, will increase its volume by 15 per cent in 1961 as a result of its expansion into the shell house market.

A Louisiana builder, a large-volume home manufacturer, told the Conference that his firm has just entered the shell house business with factory-made models and is actively engaged in establishing a builder-dealer organization within a 250-mile radius of Baton Rouge.

People · Places · Events

John C. Storey has been elected second vice president of New England Mutual Life Insurance Company in the mortgage and real estate division. He has been counsel for New England Life since 1959.

In his new position Storey will investigate and approve or recommend mortgage loans. As in the past the legal matters in the mortgage and real estate areas will be handled by the law division.

After graduating from Harvard University in 1935 and Harvard Law School in 1938 Storey practiced law in Boston. He served with the FBI during World War II and was associate counsel for Textron, Inc., before joining New England Life as an attorney in 1950. He was promoted to assistant counsel in 1953, associate counsel in 1957 and counsel in 1959.

Fred R. Thompson, Jr., treasurer and director of Crawford Corporation, has been named executive vice president of Crawford Housing Services and has moved from Baton Rouge to New York to assume the post. Three new vice presidents of Crawford Housing Services were named: **W. T. Harger,** vice president of Crawford Home Loan Corp., Baton Rouge, another subsidiary; **Lynn H. Hall,** assistant vice president of Crawford Housing Services; and **Spencer Douglas Young,** recently with J. P. Huntoon & Co.

Thompson has been treasurer of the parent corporation and its subsidiaries since 1954 and also served as secretary until 1960. He was formerly with Guaranty Life Insurance Co., Baton Rouge.

Harger has been vice president of Crawford Home Loan Corp. since 1959 and was formerly with Frederick W. Berens, Washington, D. C. and J. Maxwell Pringle & Co., Inc., New York.

Young served 21 years as assistant treasurer of the Greenwich (N. Y.) Savings Bank.

Juan Padin, formerly assistant secretary of the treasury of Puerto Rico and a vice president of the Berens Companies in Washington, D. C., has been named manager of the firm's new office in Puerto Rico. He is a graduate of MBA's School of Mortgage Banking.

A new mortgage brokerage firm, Patterson, Kirwin, Hwass & Co. has been organized in New York by **George W. Patterson, Jr., J. North Kirwin** and **Edward R. Hwass,** all of whom were formerly officers in Crawford Housing Services.

Price Butler, assistant vice president, Knight, Orr & Company, Inc., Jacksonville, has been named manager of the firm's new branch in Orlando.

Walter G. Cushing, manager of the Pensacola office of J. I. Kislak Mortgage Corporation of Florida, has been elected assistant vice president, Vice President **R. W. Johnson** announced.

Lowell H. Duggan has been appointed vice president of California Financial Corporation. He has been active for the past fifteen years in the mortgage banking business and until recently was president of Duggan Investment Company. He is a graduate of Northwestern University School of Mortgage Banking.

South Coast Life Insurance Company announced that **H. Arthur Littell,** vice president, secretary and treasurer, has been elected to the board. He attended the MBA School of Mortgage Banking at Stanford and is a member of the board of Houston MBA.

H. A. Littell

John K. Harris

John K. Harris, formerly senior appraiser of the New York Life Insurance Company, has been elected vice president and mortgage officer of the Harlem Savings Bank, New York, **Edward J. Pierce,** president, announced.

Trustees of Merchants Savings Bank, Manchester, N. H., elected **William B. Meserve** vice president with his major area of activity to be the supervision of the mortgage department.

Benjamin Levinson, president of Franklin Mortgage Corporation, Detroit, sponsored a luncheon meeting of builders, mortgage bankers and real estate brokers to hear FHA Commissioner **Neal J. Hardy** speak on the new housing legislation and interpret the many new sections which the law contains.

Philip Zinman, chairman of South Jersey Mortgage Company, established the Philip Zinman Foundation Scholarship Fund at the Moore Institute of Art to be given annually. The scholarship covers tuition and general fees for a student of ability and scholastic merit. Established in 1957, the 1961-62 award was given to a young woman who is in her fourth year of college work.

Mercantile Mortgage Company, Granite City, Ill., announced the appointment of **George D. Rainford** to the position of vice president in charge of sales. Mr. Rainford is a

brother of Mercantile president **William C. Rainford.**

In his article in the August 1961 issue on "Tax Treatment of Pre-1960 Acquisitions and Sales of FNMA Stock," H. Cecil Kilpatrick mentioned a number of cases in litigation. One of these was McMillan Mortgage Company *vs* Commissioner and this has since been decided in favor of the taxpayer.

Obituaries

With regret and sorrow we record the death of **Howard J. Ludington,** president of H. J. Ludington, Inc. and H. J. Ludington Investors Inc., Rochester, one of the country's best known mortgage men. In his capacity as head of one of the pioneer nation-wide mortgage brokerage companies, he had over the years become one of the most familiar personalities in the mortgage industry. Earlier this year he was named to the Board of Trustees of Cornell University by Governor Rockefeller. Over the years he had been a member of the school's Council and one of its most active alumni. He had long been prominent in civic affairs in Upstate New York.

With regret and sorrow we record the death of **Frederick W. Berens, Sr.,** founder of The Berens Companies in Washington, D. C. His death occurred in Atlantic City where he was vacationing. He retired from active business in 1952 and moved to Pompano Beach, Florida. Five separate companies comprise the present Berens group. Mr. Berens was a pioneer mortgage banker and negotiated one of the first FHA loans made in the nation.

THE SALVAGE VALUE FOR DEPRECIATION PURPOSES

(Continued from page 39)

The cases just mentioned dealt with automobiles owned by car rental companies, where the taxpayers customarily sold the cars after a year and a half to three years. The taxpayers either ignored the salvage value adjustment altogether or reduced cost by an estimate of what the salvage value would be at the end of the physical life of the car. By the time the revenue agent began his audit of the return, he was able to establish the actual period of use and the sale price, which could only be estimated at the time the return was filed.

How will the rationale of these cases affect the depreciation of buildings? Only time (and more litigation perhaps) will tell. Since "useful life" is now finally settled as meaning the period during which the owner is likely to use it in his business, revenue agents will not be in as strong position as heretofore to argue for rates of 2 or 2½ per cent, where the structure obviously will become outmoded for *the taxpayer's business* in twenty or even fifteen or ten years. On the other hand, who is to estimate with any accuracy the market value of such a building ten, fifteen or twenty years hence? The tendency of examining agents will be to exaggerate such values and thus reduce the base for depreciation to offset, or more than offset, any increase in depreciation percentage rates.

PERSONNEL
AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

Desire change with good future and fringe benefits. Assistant Vice-President of Commercial Bank $16 Million Mortgage Operation. 5 years experience originating and servicing conventional, FHA and VA mortgages (including FNMA). College graduate, 36 years old, married, three children. Write Box 750 giving particulars.

MORTGAGE BANKER AVAILABLE — 15 years experience origination and servicing. Conventional and insured, commercial and residential. Background of accounting, appraisal, construction, processing, warehousing and management. For complete résumé write Box 735.

COMMERCIAL LOAN EXECUTIVE AVAILABLE

M.A.I. thoroughly qualified in the processing of income property loans contemplates change. Capable of carrying major responsibilities. Desires connection with bank, savings and loan, insurance company, or aggressive mortgage company. Résumé upon request. Write Box 751.

Opportunity with old, established Texas mortgage banking firm for young man experienced in production and appraisal of commercial and industrial loans. Write Box 752, giving age, experience and salary required.

Branch Manager needed for Southern Ohio office of national mortgage banking firm. Sales and administrative ability required—mortgage experience desirable. Submit résumé and salary requirements to Box 754.